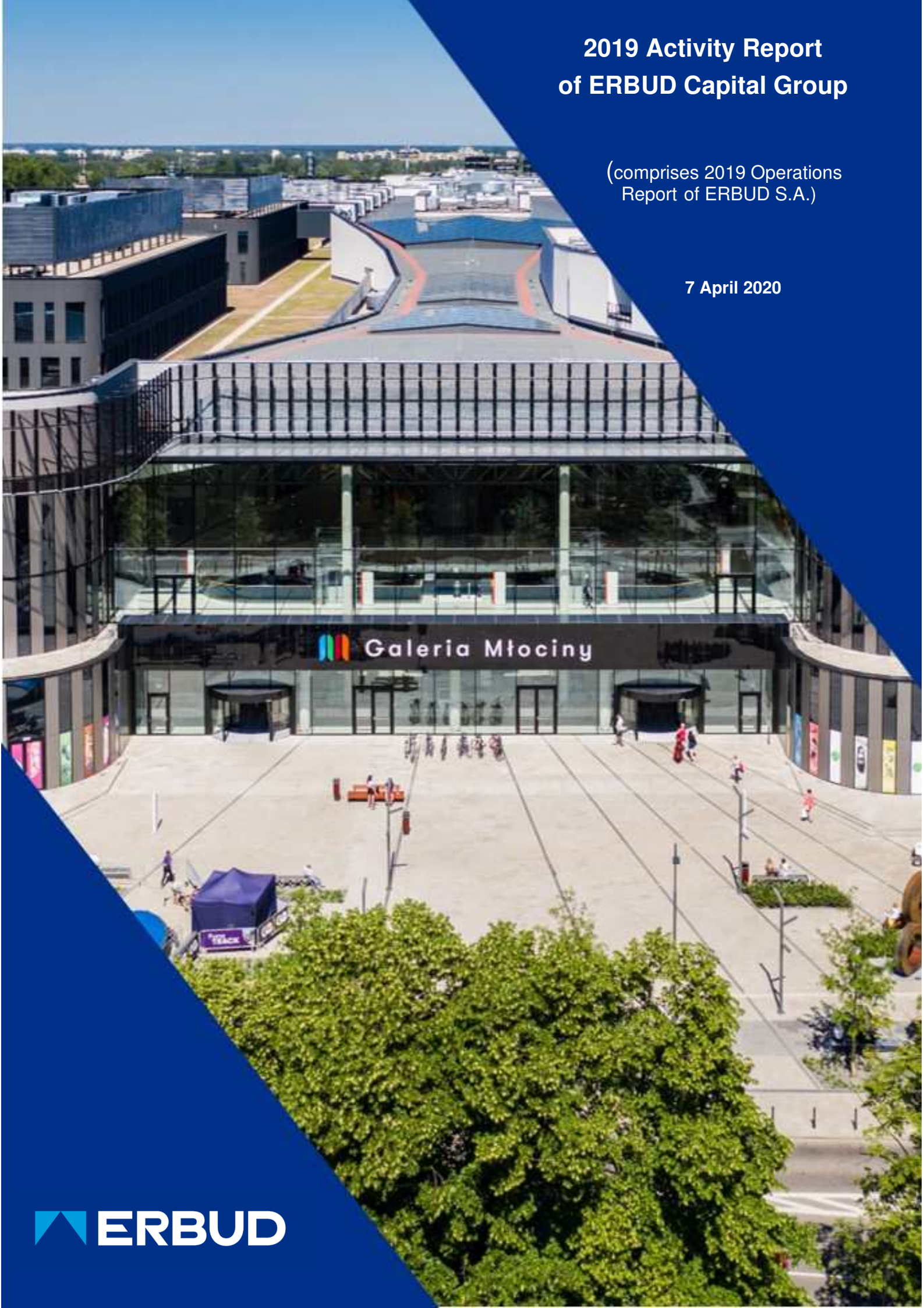
2019 Activity Report of ERBUD Capital Group

(comprises 2019 Operations Report of ERBUD S.A.)

7 April 2020



ERBUD

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A LETTER OF THE MANAGEMENT BOARD MEMBERS

Warsaw, 7 April 2020

Dear Sirs,

We would like to invite you to read already the fourth Integrated Annual Report of ERBUD Group. As a CSR company, we are convinced that the growth of the company's shareholders' value should go hand in hand with the interests of the environment - both internal and external. Therefore, in this Report we present information about the Group in a broad financial and non-financial context. Within the framework of non-financial reporting, as in previous years, we present in detail the sustainable development areas. For the first time, we describe the actions taken by
the Group to reduce greenhouse gas emissions and contribute to a climate change resilient economy.

The year 2019 saw intensive work on boosting profitability and building an optimal order portfolio. It was reflected in the Group's very good financial performance. The year-end EBIT margin reached 2.5% with revenues in the range of PLN 2.3 billion, and the order portfolio worth PLN 2.4 billion allows us to look with optimism at the current year 2020 and beyond. The highlight of the year 2019 was the completion and commissioning of the Młociny shopping, service and entertainment mall in Warsaw - one of the largest and most modern facilities of its kind in Poland.
The investment project worth PLN 646.5 million and huge in terms of its size was for us a strategic and historically largest project both in terms of value and cubic capacity. By successfully completing this project, we have proven that we have both experience and resources to be in the forefront of construction companies and not only in the Polish market. Once again, we have shown that we are a trustworthy business partner that meets even the most demanding obligations vis-a-vis investors.

The year 2020 is exceptional for us - we celebrate 30th anniversary of the Company operations. Within three decades, ERBUD has undergone a transformation from a small business, located in one room, to an international capital group with a headcount of 2.5 thousand people. It is hard to list here all the contributors to the Company success, however, we would like to emphasize at this point the key role played by Józef Adam Zubelewicz who has developed our activities in the Polish market extremely efficiently and without him we would certainly not be where we are today. Since last year, after 20 years of working for ERBUD, Józef Adam Zubelewicz has enjoyed a well-deserved retirement, however, he is still present in the Company's organisational structure as an advisor to the Management Board . We would like to express him our gratitude for 20 years of hard work, absolute professionalism, overriding commitment and meticulous oversight over the most important area of our activities - building construction. We would also like to thank him for the last couple of years when Adam Zubelewicz worked very

hard on preparing his successor. The first months of 2020 already show how perfectly he prepared Jacek Leczkowski, his successor to take over duties from him. We are and will remain grateful to him for his invaluable contribution to the company development and we are happy that he will continue to support us with his experience, advice and knowledge.

For 30 years now the ERBUD Group has been developing an organizational culture based on fundamental values such as: responsibility, innovation, safety and partnership. This has allowed us to build trust among our clients, many of whom are among the largest investors in the European and Polish markets. We have been cooperating with a number of them for many years now. The business relationships with subcontractors and suppliers are also essential for us. They follow transparent principles. We are a reliable payer and we always meet the our contractual obligations.

Above all, however, people are our strength and they are committed to the performance of their day-to-day duties. Strong ERBUD brand has been built thanks to their hard work and reliability. Taking care for our most valuable capital, viz. human capital, we carried out a consecutive personnel commitment survey last year. It covered all member companies of the ERBUD Group, while the survey response rate was 58%. Thanks to the survey we received a map of needs, opportunities and challenges that our Group faces in the human capital management area. We immediately started to implement the survey findings in order to make the ERBUD Group an even better and more desirable employer. Our personnel is covered by the training system that enables them to upgrade their qualifications step by step. Their professional development is also strengthened by the internal promotion system. In 2019, we launched the Talent Development Programme, which covered the members of the managerial staff.

We are editing this letter at a time when an epidemic emergency status was announced in Poland.

The Management Board of ERBUD S.A. reacts to any emergency situations on an on-going basis. Currently, as a result of the announcement of an epidemic emergency status, a Security Staff has been appointed, which discusses the current situation with the Management Board on day-to-day day. In view of the ever-increasing risk of catching COVID-19 virus, bearing in mind the safety of our personnel and those of our business partners in particular, the following measures have been implemented in the ERBUD Group: many prevention procedures related to hygiene have been implemented; personnel has been trained in the area of disease prevention (in accordance with WHO guidelines); all personnel members are covered now with temperature measurement requirement before entering the workplace; the work organisation of the construction sites / execution activities has been changed - in order to minimise the presence of large numbers of employees at one place at one time; most office workers work in HO mode, whereas contacts and meetings are held using means of distance communication. In order to ensure the protection and safety of personnel, taking into account any change in the situation,

the Management Board of ERBUD S.A., in consultation with the Security Staff, takes decisions on an on-going basis concerning subsequent changes in the organisation of the ERBUD Group's work.

The member companies and personnel of the ERBUD Group are committed to the local communities where they live and work every day. We also often support social-oriented activities run by our business partners. The ERBUD Foundation Common Challenges named after Eryk Grzeszczak is extremely important for us. It helps children's homes charges to go through the process of becoming independent. We also exercise constant environmental care including the optimal consumption of raw materials and materials and minimization of generated waste.

This Statement confirms the ERBUD Group's strong market position and ability to generate stable financial performance. This has been achieved through the work and commitment of many of our stakeholders - customers, business partners and employees who are by all means our most valuable asset. We would like to thank all of the above mentioned for working with us, their trust and successes achieved together. We also want to declare that the Group will work with full commitment to continuously enhance the shareholders' value.

We invite you to read the Report,
Dariusz Grzeszczak
Agnieszka Głowacka
Jacek Leczkowski

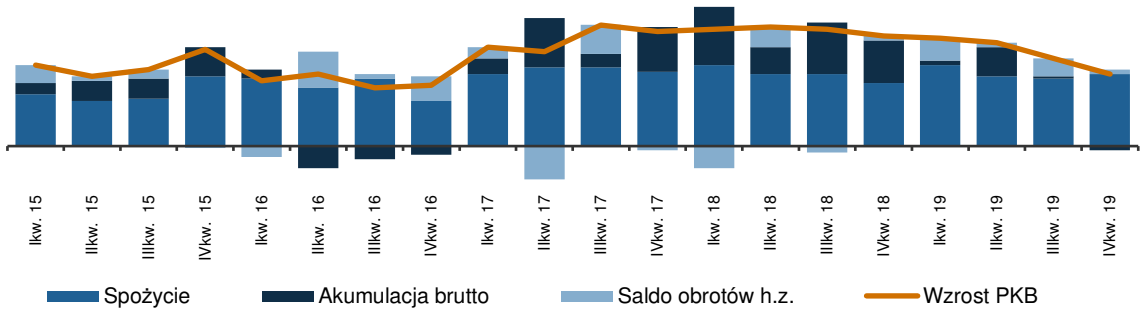
1. MACROECONOMIC ENVIRONMENT

1.1. Economic situation

1.1.1. Poland

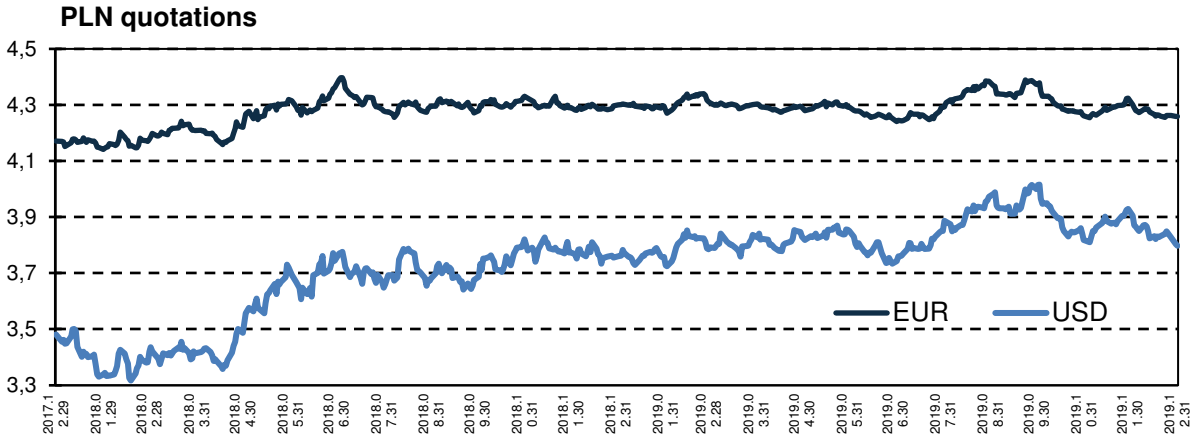
The preliminary estimates of the Polish Central Statistical Office (GUS) for GDP growth in Poland in 2019 at 4.1% indicate a slowdown in the development of the Polish economy, which was at the lowest level in the last three years (in 2017 and 2018 GDP growth was 4.9% and 5.1% respectively). The economic slowdown was already visible after the Q3, whereas Q4 alone only confirmed this trend. For a long time now, the main growth engine of the economy has been consumption (historically accounting for around 3% of total GDP growth), supplemented by capital expenditures, especially originating from EU-funded sources. The growth of private consumption was supported both by the labour market improvements (wage growth) and by the positive sentiments of households.

GDP growth structure in Poland



Source: Polish Central Statistical Office (GUS, Polish Statistics), Statistical Newsletter 12/2019, Preliminary GDP estimation in the fourth quarter of 2019.

Despite the lack of major changes in 2019 opening and closing exchange rates (the Polish currency (PLN) strengthened against the euro (EUR) by 1% and weakened against the US dollar by 1%), the whole year was characterised by quite high volatility of exchange rates. The Polish currency (PLN) moved within the crawling bands: 4.2406 - 4.3891 (PLN/EUR) and 3.7243 - 4.0154 (PLN/USD) respectively. Although in the overall 2019 the Polish currency (PLN) was supported by good macroeconomic performance indicators of the country, it should be remembered that it was a year of two elections (European and national), and the exchange rates were also influenced by external factors such as the customs war between the US and China, an attempted impeachment of the US President, or the Brexit-induced turmoil. While the onset of 2020 brought reassurance to US-China relations and enhanced Brexit predictability, a new element has occurred on the market that could have a significant impact on the currency market - the outbreak of coronavirus epidemic in China and its spreading.



Source: National Bank of Poland, Archives of average exchange rates – Table A

In 2019, the average consumer price index (CPI) growth rate was 2.3%. Inflation rate was practically growing throughout the year with a slight slowdown in the third quarter to reach 3.4% in December 2019 (0.9 p.p. above the inflation target set by the National Bank of Poland). The major drivers of price hikes included unprocessed food and meat, as well as services (including primarily transport services), and the main reasons for the high inflation rate included supply factors (food) and consumer demand stimulated by the improvements in the labour market.

According to the National Bank of Poland Report, dated 12 November 2019, the inflation rate will continue to be at a high level in the coming years (2.8% in 2020, 2.6% in 2021), with the peak in Q1 2020. As the major price hike drivers, the National Bank of Poland (NBP) indicated the prices hikes of fruits and vegetables due to unfavourable weather conditions, the increase in the minimum wage, fiscal changes (13th old-age pension, PIT rate reduction) and household services' price hikes (removal of waste).

At its February meeting, the Monetary Policy Council left the level of interest rates unchanged (reference rate 1.5% since 5 March 2015) arguing that current high price growth rates are temporary and in the long time perspective inflation rate will decline and remain within the target range.

1.1.2. European Union

In 2019 GDP growth rate in the European Union (EU27) according to initial estimates reached 1.4%, confirming the slowdown observed for several quarters, especially in Western Europe.

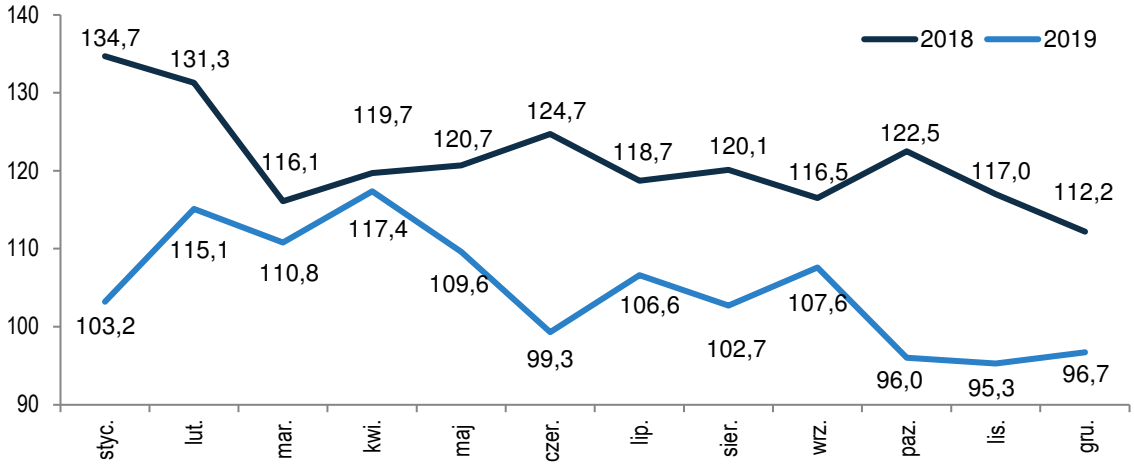
According to the Eurostat in the countries where the ERBUD Capital Group operates, GDP growth rates in 2019 were as follows:

- Germany – 0.6%,
- Belgium – 1.4%,
- France – 1.2%,
- The Netherlands – 1.7%.

1.2. Standing of the Polish construction sector

In 2019, the sales growth rate in the construction and erection service sector reached 2.6%, well below the previous year (17.9%). A slowdown was visible especially in Q4 and applied in particular to the construction of buildings and specialist works. The situation was relatively the best in the construction of civil engineering facilities, where the growth rate, both on a monthly and annual bases, remained positive.

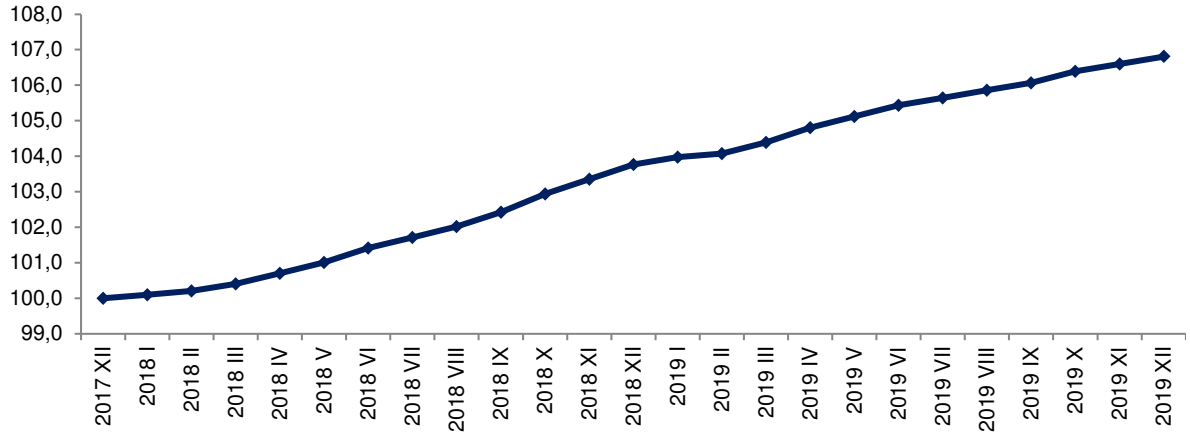
Growth rate of construction and erection production (y/y, in %)



Source: Polish Central Statistical Office (Polish Statistics), monthly information on growth rates of construction and erection services

The slowdown in production in the construction sector has not translated into housing construction. In the overall 2019, developers commissioned 130.9 thousand housing units, i.e. 16.6% more than in the corresponding period of the previous year, and the number of new building permits for developers was up by 16.6% i.e. 167.3 thousand housing units.

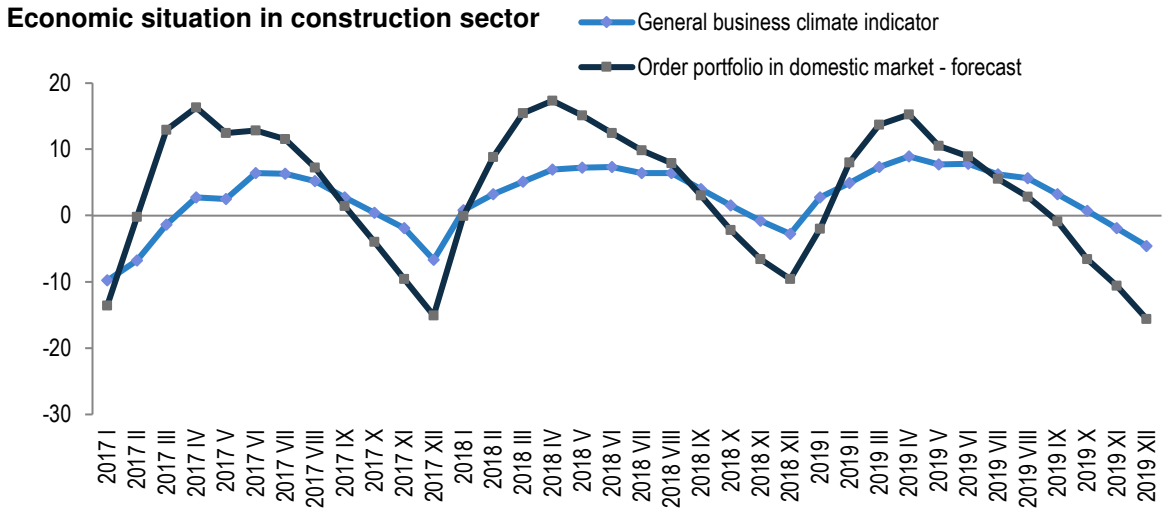
Price index of construction-erection production (December 2017 = 100%)



Source: Polish Central Statistical Office (Polish Statistics), prices indices of construction and erection production

Since mid-2017 the prices of construction and assembly production have been steadily growing, which affects all segments of the construction sector. This is the result of the on-going boom in the construction sector, pressure wage increases, as well as an expansionary monetary policy. Average prices of construction and erection production in December 2019 were up by 2.9% compared to the corresponding period of the previous year.

It is worth mentioning that the dynamics of construction and assembly production prices published by the Polish Central Statistical Office (GUS, Polish Statistics) does not fully reflect price changes in real terms due to limited access to specific contracts between the contracting authority and the contractor, especially those referring to large investment projects. Numerous experts claim that the actual price hikes are higher than those officially published.



Source: Polish Central Statistical Office (GUS, Polish Statistics), The Statistical Newsletter No. 12/2019

The construction sector sentiment shows a high seasonality during the year (summer maxima and winter minima), but despite this seasonality, there has been a clear upward trend over the last few years. However, recent figures show (especially since H2 2019) that the order book ratio is beginning to deteriorate significantly - in December 2019 it was -15.6 compared to -9.6 a year earlier. The general indicator for the economy also declined, but at a slower rate (in December 2019 -4.6 vs. -2.8 a year earlier). The businessmen point to late payments and rising prices of construction materials as one of the major problems.

With the industry continuing to enjoy a favourable economic climate and despite mounting pressure on labour and material costs, the financial performance of construction companies remains slightly superior than a year ago. In Q3 2019 78.6% of the construction companies surveyed by the Polish Central Statistical Office (GUS, Polish Statistics) showed a net profit compared to 75.0% in the corresponding period of the previous year. At the same time, the return on sales was 3.7% compared to 3.1% in the same period of the previous year.

The number of insolvencies in the construction industry in 2019 was 137, 20% less than a year before. According to the Euler Hermes report, the main reasons for bankruptcy are the low profitability of the industry.

1.3. Regulatory changes

1.3.1. Regulations with a significant impact on the activities of construction companies

The Act on Employee Capital Plans entered into force on 1 January 2019, with a six-month vacatio legis (i.e. it became effective on 1 July 2019 and from that date it covers companies with the headcount of at least 250 people). According to the Act on Employee Capital Plans, the scheme can be joined by any employed person who is obligatorily insured for old-age and disability pensions.

Since 1 September 2019, a white list of taxable persons has been in place, with the necessary information on VAT taxpayers. The list of VAT taxpayers is kept in the Public Information Newsletter on the website of the Ministry of Finance and in the Central Register and Information on Business Activity (CEIDG). The list allows for verification of the contractor - whether he is an active VAT taxpayer, whether he was refused registration, whether he was deleted from the register. At the same time, additional obligations were imposed on the businessmen. From 1 January 2020, transactions with the value exceeding PLN 15,000, made using an account other than the one indicated on the white list, will be tax non-deductible, and the businessman will be jointly and severally liable for all his assets together with the contractor, if the contractor does not pay VAT to the tax office. The businessman is liable up to the amount of VAT resulting from payments made to a bank account other than that indicated on the white list. The businessman will not bear the negative consequences described above, provided that the payment is notified to a bank account other than the one indicated in the white list, the head of the tax office, within three days from the date of transfer order.

Effective from 1 November 2019, in addition to paying VAT liabilities, businessmen may also pay PIT, CIT, excise duties, customs duties and social security contributions from their VAT accounts, which is to prevent the freezing of businessmen's funds on VAT accounts.

On 1 January 2019, amendments to the maintenance of employee records came into force. These amendments include the introduction of a new division of the documentation, an option of electronic record keeping and the reduction of the period of retention from 50 to 10 years.

From 1 January 2019, the amount of the passenger car value limit that makes one eligible for full deduction of depreciation allowance, was raised from EUR 20,000 to PLN 150,000 (and in the case of electric vehicles up to PLN 225,000). Deductible costs will be the car insurance premium calculated for a car worth maximum PLN 150,000.

As of 1 January 2019, an option was introduced to settle on one-off basis the tax loss with the maximum value of PLN 5 million (only the surplus of this amount would be settled according to the existing rules, taking into account maximum 50% in one year). Until now, the loss could be settled within 5 consecutive tax years, provided that no more than half of loss is settled in one year. Thanks to an option of settling a loss within one calendar year, it is possible to reduce the tax due in one year instead of dividing the total settlement amount into smaller portions and extending it over time.

On 21 August 2019, a part of the provisions of the amendment concerning, *inter alia*, the request for call to make a settlement attempt came into force. The requirements on the content of the request have been made stricter. The amendment also introduced changes in the amount of court fees, including an increase in the maximum amount of the relative fee to PLN 200,000 (from the current level of PLN 100,000). The fees on the request for call of a settlement attempt have also been increased, which, effective from 21 August 2019 amount to 1/5 of the fee for the statement of claim, which means that the maximum fee is currently PLN 40,000 instead of the current level of PLN 300.

Fundamental amendments to the Code of Civil Procedure entered into force on 7 November 2019. Among the most significant changes, we should point out the regulations of separate proceedings in commercial cases, which provide for shorter deadlines and a more rigorous course of proceedings, including in particular evidentiary hearing. Restrictions have been introduced on raising an objection to set-off during the procedure. Once new regulations have come into force, during the proceedings, the defendant will only be able to raise an objection to the set-off, if the claims arise from the same legal relationship or if his claim is uncontested or substantiated by a document not exclusively originating from him.

In the second half of 2019, a number of amendments were made to the waste management legislation. On 29 August 2019, the Regulation of the Minister of the Environment on the visual system of control of the place of warehousing or storage of waste was issued (Journal of Laws, item 1755). The Regulation came into force on 17 December 2019. The Regulation imposed additional obligations for video monitoring of the place of storage or waste storage, specifying the scope of the area that should be covered by the control system, the parameters of the technical equipment of the control system and the obligations to store and share the recorded image. The introduced changes may have an impact on the costs of construction investment projects.

The Council of Ministers adopted a regulation on the minimum wage for work in 2020: the lowest wages will be raised up to PLN 2 600 and the hourly rate will be equal to PLN 17.00

On 1 January 2020, the legislation introducing the bad debt relief applying to income taxes came into force. The relief shall be granted where the debtor is not a party to restructuring proceedings, insolvency proceedings or liquidation. In addition, 2 years shall not elapse from the date of issuing the invoice or concluding the contract documenting the liability, counting from the end of the calendar year in which the invoice was issued or the contract concluded. If the above criteria have been met, in the absence of receipt of payment for the invoice issued, the harmed taxpayer may reduce the tax base (income) in his tax return for the year in which 90 days have elapsed since the payment deadline expired. At the same time, the debtors were required to increase their income in their tax return for the year in which 90 days had elapsed since the payment deadline expired.

1.3.2. Regulations with a material impact on the activities of accounting and financial services

Since 1 November 2019, the compulsory split payment method applies to the supply of goods and services, which are listed in Annexes 11 (Reverse charge for goods), 13 (Joint and several liability) and 14 (Reverse charge for services, essentially construction and assembly) to the VAT Act, i.e. those for which the reverse charge procedure has been applied to date and which fall under the scope of joint and several liability. Appendices 11, 13 and 14 to the VAT Act have been repealed. The goods and services listed therein are included in the new Appendix No. 15 to the VAT Act (this concerns, *inter alia*, construction and erection services). The mandatory split payment method applies to the invoices with a value of PLN 15,000 or more, which also involves additional obligations for invoice issuers (appropriate designation). For the breach of defined obligations there are administrative sanctions for companies and criminal and fiscal sanctions for natural persons.

Pursuant to Article 11 t of the CIT Act, effective from 1 January 2019, the obligation to file CIT-TP reports was replaced by the obligation to report transfer prices in an electronic format (TP-R form). The information must be submitted by 30 September of the year following the documented fiscal year. Owing to the fact that the provision came into force on 1 January 2019, TP-R information form shall be filed for the first time by 30 September 2020.

On 1 April 2020, legislation will enter into force providing for filing of a new electronic document common to the transmission of VAT returns and information on VAT records. As a consequence, the obligation to file VAT-7/VAT-7K tax returns will be combined with the obligation to send JPK_VAT files.

1.4. Factors that will affect the Group's operations in the quarters to come

1.4.1. Economic growth rate

According to the National Bank of Poland's projections of November 2019, the GDP growth in Poland is expected to reach 3.6% in 2020 and in 2021 - 3.3%, which indicates an impending economic slowdown. The major growth engine will be still private consumption fuelled by growing social benefits and the reduction of the tax burden, as well as public consumption (increases of wages and salaries in the state budget sector). On the investment side, the NBP forecasts weakening economy in the public sector (local governments and depletion of EU funds) as well as on the private investment side as a result of decreasing external demand and declining rate of housing spending.

The European Commission developed similar forecasts under which GDP growth rate will be at the level of 3.3% in 2020 and 2021. Slightly more conservative forecasts are published by the International Monetary Fund in its report dated October 2019 estimating Polish GDP growth rate at the level of 3.1% in 2020. The IMF draws attention to the diminishing impact of the EU funding on the Polish economy in the quarters to come.

1.4.2. European Union funds

According to the Ministry of Development's Report titled "The implementation status of the European funds in Poland in 2014-2020", as of 31 January 2020, 58,990 contracts were signed, worth PLN 449.0 billion, of which the EU contribution amounted to PLN 273.0 billion, which means that over 83% of European monies has already been distributed. As you can see, the funds from the current budget are already close to exhaustion, while negotiations for the new 2021-2027 financial horizon are underway and may result in a reduction of the available funds.

EU funds are contracted, *inter alia*, in the Operational Programme "Infrastructure and Environment 2014-2020", which is the largest programme in Poland and the EU. It finances, *inter alia*, transport investment projects (motorways, roads, railways), energy and environmental protection projects.

1.4.3. Construction sector growth prospects

The growth rate indicators for construction and assembly production sector in H2 2019, the first signs of a slowdown in the construction industry are visible. In the non-residential construction segment, market saturation with commercial space is becoming more and more visible, while the situation in housing construction is still optimistic. Engineering construction was still showing positive growth rate in 2019, but growth is expected to slow down from 2020 onwards. The segment is concerned about unprofitable portfolios of current contracts and problems with raising financing, which translates into termination of contracts. The shrinking market for new investments in the long term should slowly replace revitalisations, renovations and modernisations.

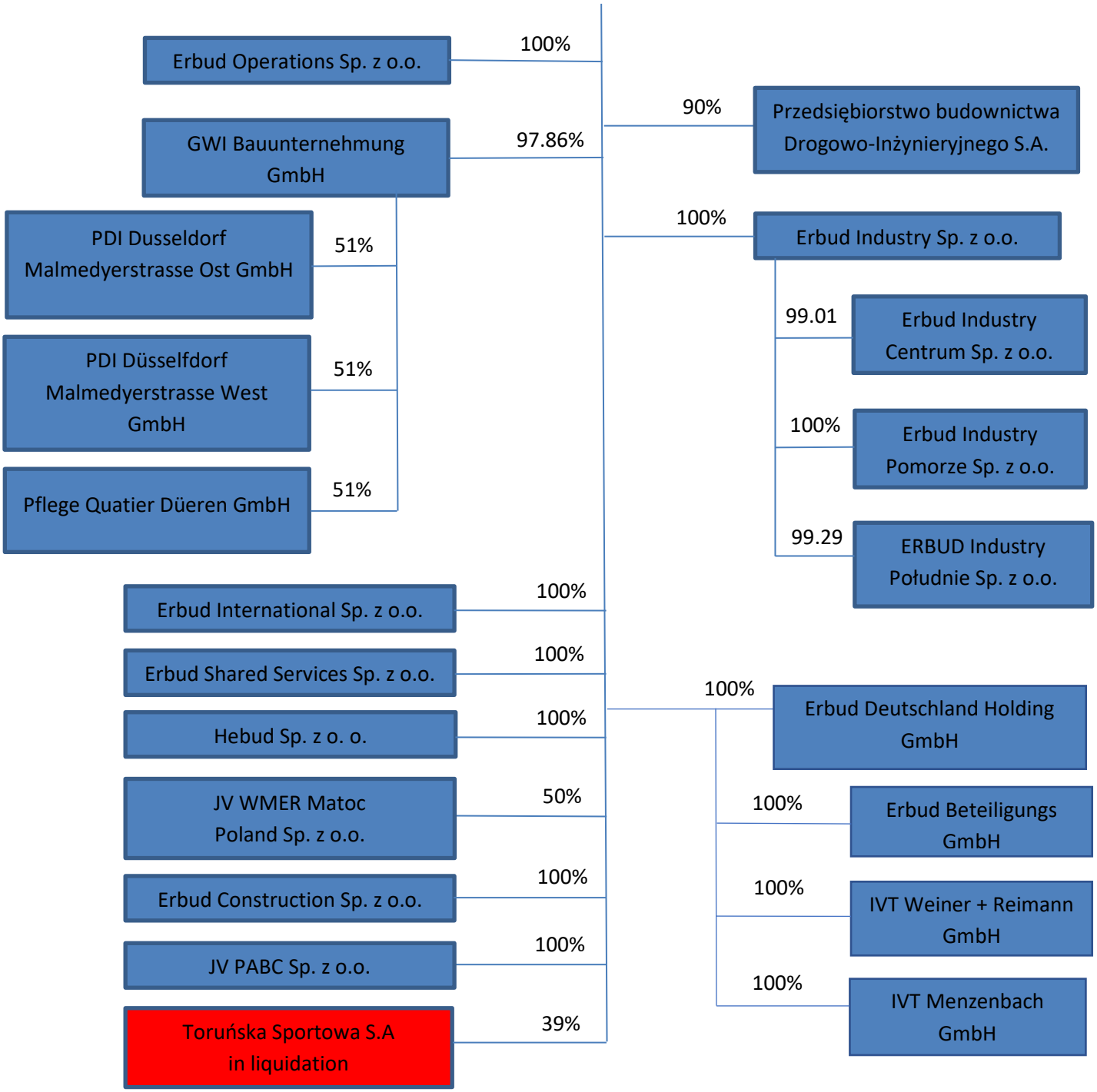
The experts point out that price competition between contractors is intensifying, because there are still tenders for road and railway works with EU part financing to be won, and more investment projects in the field of power engineering and hydrotechnics will be launched. In turn, the number of local government investment projects will fall, so local construction companies will face cut-throat competition.

The largest challenges for the industry include: the shortage of personnel and rising labour costs, which will have an impact on the performance and liquidity of companies.

2. ERBUD GROUP ACTIVITIES IN 2019

2.1. Capital Group structure

As of 7 April 2020, i.e. the date of publication of the 2019 periodic report, the structure of ERBUD Capital Group was as follows:



Due to immateriality, ERBUD Construction Sp. z o.o. and the associated entity Toruńska Sportowa S.A. in liquidation were excluded from the consolidated financial statements.

Changes that occurred in the ERBUD Group in 2019

- on 17 May 2019 the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, registered a company under the name of JV PABC Spółka z ograniczoną odpowiedzialnością under KRS No. 0000786707. (JV PABC Sp. z o.o). JV PABC Sp. z o.o. is in 100% controlled by the parent company - ERBUD S.A.

Except for the events mentioned above, there were no changes in the structure of the ERBUD Group in 2019 and until the date of publication of the report.

2.2. ERBUD S.A.

2.2.1. Scope of activities

ERBUD S.A. has been present in the market since 1990. It operates mainly in the segment of building construction and executes: industrial facilities, shopping malls, office buildings, housing facilities, hospitals, schools, hotels and cultural facilities. Since 2006 all projects have been executed on general contractor basis. Meanwhile in foreign countries, acting as a subcontractor, it performs complex engineering projects involving the construction of compressed gas tanks, tunnels, power plants.

The Company performs works mainly for large business entities and public administration. We have been cooperating with a number of them for many years now.

ERBUD S.A. has six branches: in Kraków, Rzeszów, Warsaw, Wrocław in Toruń and Szczecin.

At the end of December 2019 the total headcount at ERBUD S.A. was 759 people, including 575 in Poland. For comparison sake at the end of 2018 the relevant figures were as follows: 736 people, of which 647 in Poland.

In 2019 Erbud S.A. was subject to an external supervision audit carried out by the Quality Certification Centre to check the compliance with the standards effective at Erbud S.A:

* ISO9001:2015, AQAP 2110:2016 – quality management,

* ISO14001:2015– environmental management,

* ISO 45001:2018, BS OHSAS 18001:2007, PN-N 18001: 2004 – OH&S management.

Each area driven by both normative and internal regulations has been thoroughly verified.

For the first time in the long-term history of management systems in Erbud S.A., the auditors did not point out any inconsistencies or areas for improvement, but they highlighted 6 strengths of the organization:

1. Involvement of the personnel in functioning and improvement of the integrated management system. High awareness of quality, environmental as well as occupational health and safety (OH&S) requirements at all organisational levels.
2. Improving the process of order acquisition and review of client requirements and risk-based investor assessment (new investment charter, client requirements verification committee).
3. Risk management during construction
4. Growing role of environmental management in the Company's operations and its sustainable development.
5. Planning, implementation, documentation and effectiveness of internal audits.
6. Complexity of activities to ensure health and safety at construction sites resulting in low accident rates over the past years.

Established in 2018 the Personal Data Protection Inspector audited Erbud S.A. for the correctness of compliance and entrusting personal data at the company. The data was presented to the Personal Data Controller (ESA Management Board) in the form of a report. All requirements under the Regulation of the European Parliament on personal data protection (GDPR) are complied with at Erbud S.A.

In the second half of 2019 PBDI S.A. was one of the first subsidiaries of the Erbud Group to undergo an external certification audit to check the compliance with the newly implemented ISO 14001:2015 standard based on the unified system documentation of the Erbud Group. This audit covered the organizational units of PBDI, including equipment base and maintenance, photovoltaic farm and wind farm. The audit unit was the Quality Certification Centre. The audit was completed with a positive grade for the Company.

At the same time, work began on the unification of system documentation in another subsidiary - Erbud Industry. This company will be subject to an external audit for compliance with the applicable ISO standards and system documentation in April 2020. The audit will be carried out by the Office of Technical Inspection's unit.

In 2019, the Company achieved its main strategic goal in the field of occupational health and safety (OH&S) – **0 serious, fatal and collective accidents (including our subcontractors)**. All accidents recorded last year were light accidents.

We are proud that we have managed to achieve this accident rate given such a large scale of our activities - over 100 contracts executed within the Group and thousands of people on construction sites (at the peak of season - even 11 thousand people with subcontractors).

The year 2019 also saw the implementation of an OH&S management system compliant with the new ISO 45001 standard: 2018 in another member company of the ERBUD Group i.e. ERBUD INDUSTRY Sp. z o.o. (earlier in 2018: ERBUD SA and PBDI SA).

In April 2019, ERBUD INDUSTRY successfully passed the certification audit carried out by UDT-CERT, the accredited Management Systems Certification Body.

PBDI S.A. implemented an environmental management system compliant with the ISO 14001:2015 standard, successfully certifying it through an accredited unit of the Quality Certification Centre in Warsaw in October 2019. As a result, PBDI is in the possession of an integrated management system in the HSE area.

In this year's editions of the "BUILD Safely" competition of the National Labour Inspectorate we won a total of 7 awards; 3 of our construction sites took 1st place.

Throughout the 10-year history of our participation in the Build Safely competitions, the National Labour Inspectorate has already awarded and honoured 43 of our projects.

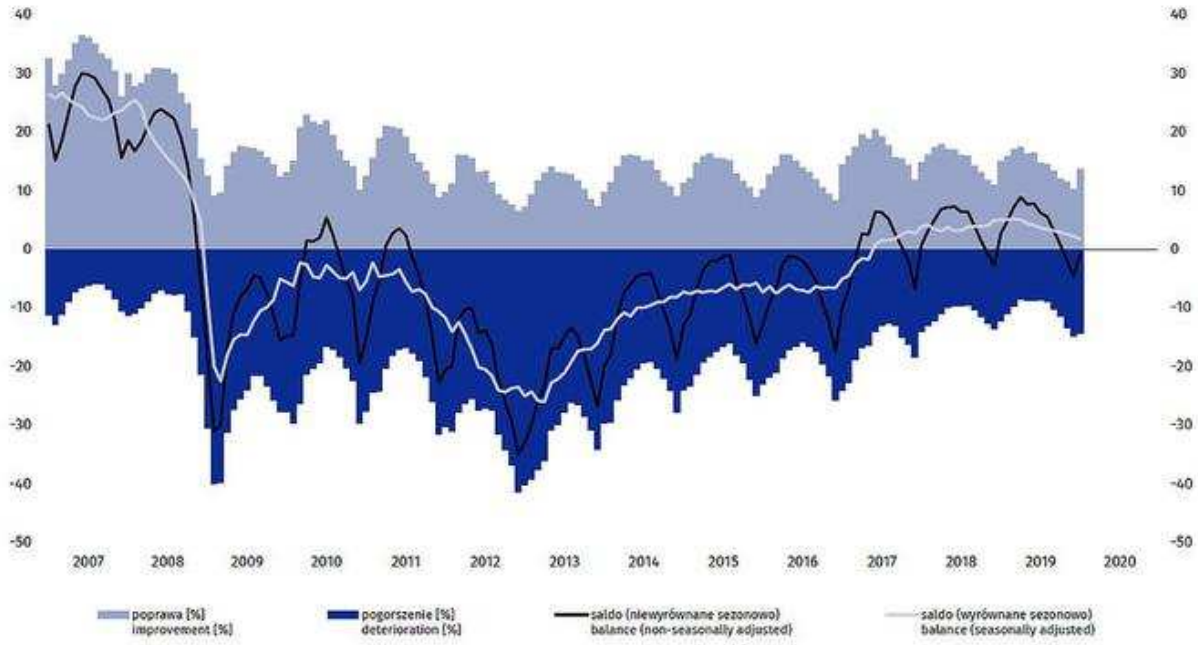
Construction site	Place occupied	Branch /Company	DLI location
Construction of Hampton by Hilton facility consisting of an office and hotel buildings.	1st place	The Toruń Branch	The City of Łódź
Construction of Neuca office building in the City of Toruń	1st place	The Toruń Branch	The City of Bydgoszcz
Construction of the "Nowa Metale" warehousing facility in the locality of Ostaszewo	1st place	The Toruń Branch	The City of Bydgoszcz
Construction of the Specialist Clinics and Server Room in the A2 building of the Clinical and Didactic Centre of the Medical University of Łódź,	3rd place	ERBUD Operation Sp. z o.o.	The City of Łódź
"Potęgowo" Wind Farm	2nd place	PBDI	Gdańsk
A school in Berylowa Street in the City of Lublin.	3rd place	The Rzeszów Branch	The City of Lublin
"Barwice" wind farm	Distinction / no place	PBDI	The City of Szczecin

On the onset of 2020, ERBUD took over the Presidency of the Construction Safety Alliance, for a two-year term. The Construction Safety Alliance is an initiative of the thirteen largest general contractors aimed at improving safety on the Polish construction sites.

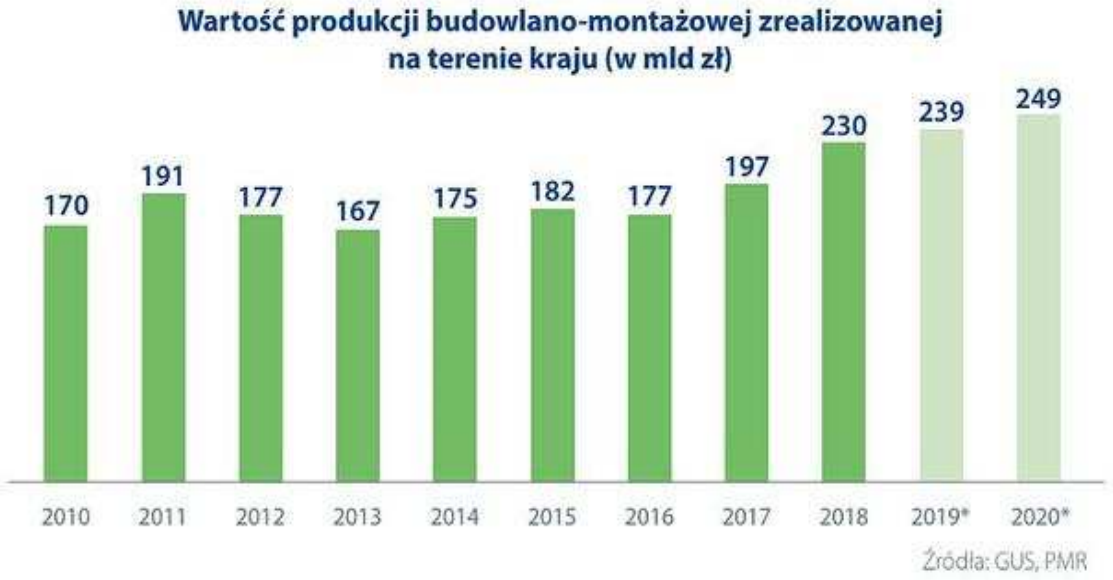
2.2.2. Market situation

The year 2019 was marked by economy cooling down mainly due to the slowdown of economic activity in the transport infrastructure segment and the weakening of investment growth rate on the part of local governments. But the fall in the number of projects underway has contributed to the stabilisation of prices of materials, services and salaries in the construction market. This, in turn, translated into improved finances for construction companies.

In January 2019, the construction industry's business cycle index was at the level 2.7, with its peak of 8.9 in April, and in November it fell below zero, to record a negative value of minus 1.9 in December. This testifies that construction companies do not perceive their standing (mainly financial) in the past year as good at the background of market conditions. In December 2019, the construction business cycle index calculated by the Polish Central Statistical Office (GUS, Polish Statistics) was minus 4.6 (compared to minus 2.8 in December 2018). Following November, it was the second month with an economic downturn and index below zero.



Prepared by: GUS General business climate indicator in the construction sector



Prepared by: PZPB: Value of construction and erection production.

However, the construction market experts point out that price competition between contractors is intensifying, because there are still a lot of tenders for road engineering and railway works with EU part financing to be won, and more investment projects in the field of power engineering and hydrotechnics will be launched. It is already certain that the number of local government investment projects will decline, so the local construction companies will face a cut-throat competition. In housing and commercial space investment areas in 2020 still high demand for construction services will prevail.

The construction industry's economic position began to rise at the beginning of 2020 from the level of minus 4.6 in December 2019. This happens every year, except that currently the economic growth rate is negligible, which indicates the deteriorating standing of construction companies.

In 2019, construction companies managed to achieve a net result almost twice as high as in the previous year, in the first half of the year an increase from about 800 million to about 1.5 billion PLN was recorded, but this did not translate into the financial standing of construction companies. As at the end of June 2019, construction companies' overdue liabilities vis-a-vis banks and business partners amounted to PLN 4.92 billion (data from the Debtors' Register of InfoMonitor Economic Information Office and Credit Information Bureau). The problem with timely payment of liabilities is faced by 44,894 construction companies (they account for 5.8% of the total number of companies in the construction sector registered in the National Court Register and Central Registration and Information on Business). Currently the number of debtors is 2195 higher than at the end of 2018.

Overdue debts of construction sector players rose by PLN 171.1 million in H1 2019. The arrears of companies run by natural persons and civil partnerships was up by PLN 98.6 million (6.1%), whereas those of larger companies operating under commercial code was up by PLN 72.4 million (2.3%). The average overdue liability is currently PLN 109.5 thousand. Among large companies, one in six has payment problems (6631 construction companies, 38,263 small businesses are in the red). It should be noted that most debtors are generated by the construction of civil engineering facilities.



Key: Construction companies' debt (in PLN BN)

When the intensity of work in the construction market weakened in the first half of the year, the construction companies reduced their employment needs for blue-collar workers, and record high wage pressure in the construction sector diminished. The problem for construction companies is still a shortage of skilled workers, and here competition by means of wages is to be expected. Construction companies are filling their staffing shortages with workers from Ukraine and Belarus, and more and more often they are reaching for workers from Asian countries, including Nepal, Bangladesh and the Philippines. Here, however, the situation may change to the detriment of Polish companies, because in 2020 the German

labour market opens up to the workers from the East, and since it is more attractive than ours (the heads of the largest construction companies even claim that the foreigners they employ learn German after working hours), one has to reckon with the outflow of labour force. The level of employment in the construction industry will also be regulated by the minimum wage, which in 2020 is to grow up to PLN 2600 gross (that is PLN 350 more than in 2019), which many companies will not be able to afford while maintaining the current staffing levels.

Price hikes of construction materials was a natural market mechanism that occurred between supply and demand. The construction market already experienced that in 2009-2011, however, the current price crisis is allegedly much bigger. It was estimated that from 2016 to Q3 2019 the price of asphalt was up by 76%, concrete by 44%, reinforcement steel by 45%. These price hikes obviously affected only infrastructural investment contractors, who usually make purchases directly from manufacturers and negotiate prices. The prices of construction materials sold at building depots and wholesalers were slightly different. PSB Group, a major seller of construction materials, calculated the average price hikes in 2019 of building materials sold in its sales network at the level of less than 4%, however, there are significant differences in the growth rate of price changes between different categories of analysed construction materials. The construction materials' price hikes was also not affected by factors beyond control of the manufacturers, namely price of diesel oil went up by 36% over two years and wages rose by over 30%.[1]

2.2.3. Contracts signed in 2019

Major contracts signed by ERBUD S.A. in 2019

Contract Date	Investor	Subject of the Agreement	Contract net value
4 Dec. 2019	Etap III GPI Wrocław Spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, Al. Jerozolimskie 96	Performance of construction works involving the construction on the real property site located in Wrocław, in Gwiaździsta Street, comprising a plot of land No. 17/6, precinct 0022 South, of a multi-family apartment building with an underground car-park facility along with complete accompanying infrastructure and land development.	PLN 54.4 million
29 November 2019	ETAP LMNO - TRURO Sp. z o.o. ul. Hoża 86 apt. 410, 00-682 Warszawa ETAP TUW - TOTTON Sp. z o.o. ul. Śniadeckich 10, 00-682 Warsaw The above Companies are owned by RONSON DEVELOPMENT at Al. KEN 57, 02-797 Warszawa	General contractor of the building - complex of apartment buildings ETAP LMNO and Etap TUW - Warsaw, Jaśminowa / Pory Streets	PLN 27.5 million

[1] https://www.muratorplus.pl/biznes/raporty-i-prognozy/dobre-prognozy-dla-branzy-budowlanej-aa-9wie-eQdm-vNKB.html

24 Oct.2019	AN3 Spółka z ograniczoną odpowiedzialnością (AN3 Ltd.), with registered office at ul. Prosta 68, 00-838 Warszawa	Construction of one multi-storey residential building with an underground car park facility underneath ("Subproject 1") and construction of three multi-storey buildings with one underground car park facility underneath ("Subproject 2")".	PLN 115.0 million
23 Sept. 2019	Śląskie Centrum Chorób (*Investor Silesian Centre for Heart Diseases*) in the City of Zabrze	Execution of the investment project titled: "Setting up of the Silesian Clinical and Scientific Centre for the Prevention and Treatment of Environmental, Modern Age and Old Age Diseases, named after Prof. Zbigniew Religa" following the "design and build" procedure	PLN 107.7 million
30 Jul. 2019	Lake Hill Sp. z o.o. Al. Jana Pawła II 12, 00-124 Krakow	Construction of Lake Hill II investment project including: HOTEL BUILDINGS C & D together with land development in the locality of Sosnówka	PLN 26.4 million
25 Jul. 2019	"Frederic Chopin" Provincial Hospital Clinic No. 1 in the City of Rzeszów, at ul. Szopena 2, 35-055 Rzeszów	Reconstruction, superstructure and extension of the Subcarpathian Pulmonary Disease Centre in the City of Rzeszów together with building systems: water supply and sewage discharge, central heating, gas distribution, mechanical ventilation and air-conditioning, cooling, electrical, telecommunication and medical gases systems; demolition of a part of the Subcarpathian Pulmonary Disease Centre building - B segment; extension, alteration of the medical gases building together with building systems: wiring, ICT and medical gases, central heating, mechanical ventilation systems; construction of transformer station and power generating unit; construction equipment: parking places, roads, pedestrian access roads, retaining wall, oxygen tank, air intake; outdoor ground systems: water supply, central heating, central hot water, process heat, gas distribution, sanitary sewerage system, central heating, medical gases, rainwater drainage system, electrical LV, alteration of electrical systems, outdoor lighting of the area and cable ducts; connections and networks: alteration of the sanitary sewage system, MV electrical connection, alteration of ICT networks" located on the plots of land Nos. 69/19, 69/17, 69/14, 69/20, 69/21, precinct 207 in the City Rzeszów at ul. Rycerska 2 – PHASE 1"	PLN 29.2 million
24 Jul. 2019	Maritime Scientific Center named after Jerzy Stelmach in the City of Szczecin	Construction of a Maritime Scientific Centre named after Jerzy Stelmach in the City of Szczecin: execution of civil and installation works, land development with accompanying technical infrastructure, supply of equipment, mechanical and process start-up.	PLN 74.3 million
17 July 2019	Bouygues Immobilier Polska Sp. z o.o. Al. Armii Ludowej 14, 00 - 638 Warsaw	Construction of a complex of two multi-family residential buildings with service premises on the ground floor, with an underground car park facility and the necessary technical infrastructure at ul. Milczańska in the City of Poznań.	PLN 83.1 million
6 Jun. 2019	Independent Public Teaching Hospital No. 4 in the City of Lublin, at ul. Dr. K. Jaczewskiego 8, 20-954 Lublin,"	Thermal efficiency improvement of the Main Hospital Building and the Polyclinic Building in order to improve energy efficiency of the Independent Public Hospital Clinic No. 4 in the City of Lublin".	PLN 45.4 million

13 May 2019	DEVELOPMENT PARK III - ECHO PROJECT - 112 SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ -SPÓŁKA KOMANDYTOWA, 25-323 Kielce, Al. Solidarności 36	General Contractor for the whole facility - Guesthouse building - Warsaw at ul. Suwak 13	PLN 33.4 million
26 Apr. 2019	Sports and Leisure Centre OSiR Stargard Spółką z ograniczoną odpowiedzialnością with its registered office in the City of Stargard, at ul. Szczecińska No. 35, 73-110 Stargard	Execution of demolition works, construction works together with installation works, land development and accompanying technical infrastructure, execution of swimming pool basins, supply of equipment, along with facility maintenance for 1 year.	PLN 31.6 million
17 Apr. 2019	VD Spółka z ograniczoną odpowiedzialnością Mieszkania XVIII sp.k.	Construction and commissioning of a multi-family residential building with an underground parking lot in 33 Legnicka Street, along with internal and external technical infrastructure, land development and buried infrastructure, including small architecture and greenery, accompanying structures, as well as transport system with necessary roads related to the implementation of a non-road investment by the Employer.	PLN 67.2 million

2.2.4. Major executed projects

In 2019 the Company executed, inter alia, the following major investment projects:

- Commercial facilities: MŁOCINY SHOPPING MALL with commercial, service and entertainment functions in the City of Warsaw;
- Construction of a "PORT ŻERAŃ" housing and service complex with an underground car-park facility; Construction of a "NOWA KRÓLIKARNIA" Housing and service complex with an underground car-park facility; and the "ZAJEZDNIA POZNAŃ" residential, service and commercial complex with underground car-park facility located in the City of Poznań; Construction of a PIANISSIMO multi-family residential building with services and a multi-storey underground car-park facility and above-ground parking spaces; Construction of EPIQUE BIELANY Housing Building; Construction of a multi-family residential building with a service part at ul. Chmielewskiego 23 in the City of Szczecin - Phase 1; residential building in Cedrowa Street in the City of Gdańsk; Construction of multi-family residential buildings, which represent a complex of multi-family residential buildings with underground car-park facilities, housing estate on-site road system with a complex of above-ground car parks, technical infrastructure in the City of Gdańsk; Execution of all works necessary for proper execution of the investment project including construction on the site located in Poznań, at ul. Smoluchowskiego 3 multi-family residential building with services and underground car-park facility in the City of Poznań; PROMENADA X residential building complex in the City of Wrocław; Dorzecze Legnicka III residential building complex at ul. Małopanewska in the City of Wrocław (GHI building); Construction of PORT POPOWICE" resicdential project in the City of Wrocław;
- Hotels: Construction of PLATINUM RESORT, a four-star hotel complex in the City of Świnoujście; , *Four Points* by Sheraton in Warsaw, *Seaside Park* in the City of Kołobrzeg, "DOBOSZ BLUE" Hotel in the City of Świnoujście; Construction of the Holiday Inn Express hotel on the site of Rzeszów - Jasionka Airport; demolition of the existing TROFANA ACTIVE building; demolition of land development infrastructure to the extent necessary to erect a new building; Construction of a new hotel building on the Investor's site, constructed after the demolition of the TROFANA ACTIVE building and other planned demolitions in accordance with the design and construction guidelines, modification of the existing TROFANA building to the extent necessary to attach a

new hotel building to it - the scope of the intervention includes the area of the current entrance, construction of water and gas supply connections, construction of land development fixtures; Construction of a hotel and office building in the City of Łódź

- Public utility buildings: Southern Hospital in Warsaw; Parking lots and construction of the building of the future headquarters of Campus Warsaw at Connaisseur Centre in the Warsaw Prague District; DEPOT FUNKY Academy in the City of Wrocław; Construction works performed on the general contracting basis of the A segment PORTO OFFICE building with office and service functions; Construction of the New Headquarters of the Małopolskie Burn Centre (MCOP) and Modernization of Hospital Premises" at the L. Rydygier Specialist Hospital in the City of Kraków; Construction of a multi-function building in Berylowa Street in the City of Lublin, comprising: Kindergarten, local community centre, a primary school with a gym; Renovation of the Sports and Leisure Centre's sports hall with administrative and social facilities and extension of the indoor swimming pool as part of the project titled Revitalization of the modernized areas of the City of Tomaszów Lubelski; Construction of an office building with a service part at ul. Piotrkowska 155 in Łódź; Comprehensive execution of building A, which is part of the Non-invasive Medicine Centre together with the construction of a ground connection to the Invasive Medicine Centre at the Medical University of Gdańsk; Construction in the general execution system of the office building together with other complementary facilities, buildings and structures, a connector to the distribution centre building, external infrastructure (networks, connections and roads) and small architecture, greenery and other land development elements as part of Phase 3 of the Construction of the Distribution Centre and the New Head Office of NEUCA in Forteczna Street in the City of Toruń; Construction of the Centre for Research and Conservation of Cultural Heritage at the Faculty of Fine Arts of Nicolaus Copernicus University in the City of Toruń; Modernization and extension of the indoor swimming pool building in 9/17 Bażyńskich Street in the City of Toruń including the development of the grounds surrounding the swimming pool for recreational purposes; Construction of the Foxtrot Dormitory in the City of Warsaw; City of Warsaw Białołęka Municipality - a construction of an elementary school; Construction of a commercial and service building with an underground car-park facility, above-ground parking spaces , walking and driving routes for TOYOTA KRAKÓW; Construction of a service and hotel building of collective residence with offices and an underground car-park facility in the City of Kraków.
- Miscellanea: Construction of "Lidl Stargard Distribution Centre" in the City of Stargard in Metalowa Street along with all attached internal and external infrastructure components as well as external and internal networks
- Industrial plants and systems: Comprehensive construction of a production and warehousing facility along with a social building and external infrastructure in the locality of Ostaszewo; expansion and reconstruction of the "Pomeranian Pralines" chocolate production in the locality of Tuchola; Expansion of the Oleofarm production plant Phase 1 in the City of Wrocław; Construction of a production room with a warehousing function as well as social and office part and accompanying buildings together with equipment and systems and the necessary internal and external infrastructure for SANOK RUBBER

ERBUD S.A. also operates abroad, mainly in the Belgium and Holland markets. In 2019, the total value of these revenues from construction sites carried out abroad amounted to PLN 30,975 thousand, in 2018 the volume of foreign revenues amounted to PLN 25,688 thousand.

ERBUD S.A. projects in Belgium in 2019

Employer	Name of contract	Contract value in '000 EUR
Mourik nv	Antwerp, Refinery, industrial buildings	2.219
MBG/VH/THV VL	Delen Bank	1.562

Ergon	Prefabrication process,	462
Bam	Senzafine, Apartments	1.452
Interbuild	Blok of flats No. 17, a skyscraper	244
PAGIDAK BVBA	Residential buildings	638

ERBUD S.A. projects in the Netherlands in 2019

Employer	Name of contract	Contract value in '000 EUR
BAM	**Cadzand**	**43**

2.2.5. 2020 Objectives

ERBUD S.A. plans to strengthen its position in the Polish building construction market. At the end of 2019 the Company had a domestic order book worth PLN 1,188 million, of which PLN 954 million was for 2020. For comparison sake, at the end of 2019, the portfolio in value terms totalled PLN 1 705 million. The order book in foreign countries was worth PLN 6.7 million at the end of 2019. The priority for the Company, as in 2019, will be to acquire contracts with a safe margin, to maintain business relations with existing customers and to acquire new customers in new segments, e.g. logistics centres.

In the business-related area, the Company's objective in the year 2020 is broadly understood safety. ERBUD S.A. pursues its mission of a safe partner by applying the highest standards of health and safety at work, maintaining partnership relations with all business partners and exercising care for the workforce

2.3. Erbud International Sp. z o.o.

2.3.1. Scope of activities

ERBUD International Sp. z o.o. has been operating in the marketplace since 2000. The company's registered office is in the City of Toruń. ERBUD International Sp. z o.o. constructs, renovates, delivers maintenance and modernisation services for public utility buildings, residential buildings, industrial and power engineering facilities. It specializes in raw state works and in complex repair and modernisation services rendered for the industry and power sector.

In addition to domestic investments, the Company carries out projects abroad, mainly in Belgium. ERBUD International Sp. z o.o. has a branch in Düsseldorf, Germany.

The major strength of the Company in market struggle is its ability to construct large facilities, offering superior quality and timely delivery of services to the employers.

While executing contracts in the European Union countries, ERBUD International Sp. z o.o. takes advantage of the work of its own, specialized personnel. At the end of December 2019 the total headcount at Erbud International Sp. z o.o. was 224 workers. 118 export markets, 106 domestic market. At the end of 2018. The Company's headcount was 339 people, of which 122 were employed in Poland.

The decline in employment is mainly driven by difficulties in finding qualified personnel in the marketplace and the fact that ERBUD SA is taking over the execution of foreign contracts to a greater extent.

2.3.2. Statutory governing bodies

Since 1 January 2007 Bogdan Dürr has been in the position of the President of the Management Board of ERBUD International Sp. z o.o.

2.3.3. Market situation

According to estimates by the National Bank of Belgium (NBB), GDP growth will be in the range of 1.2% in 2019. However, NBB analysts are quite sceptical about years to come. They estimate that the GDP growth rate will be lower, and in 2021 will be 1.0%. These projections are flawed because they do not take into account the impact of Brexit and the impact of government reform plans related to the labour market.

In 2019, the share of Belgium's GDP in the European Union's total GDP was (3.9% at the end of the third quarter), which proves the wealth of this small territorially speaking country.

Taking into account these forecasts and barriers in the form of lack of qualified staff, the Management Board of Erbud International Sp. z o.o. does not see the possibility of realizing higher sales than in 2019. Any attempt to increase would carry a high risk of not maintaining margins to cover fixed costs.

The official data provided by social policy makers indicate that 500,000 social housing units must be built in Belgium over the next 10 years and 350,000 social housing units must be renovated.

Thanks to its location, Belgium is an important traffic junction in the north-western Europe. In the second largest European port alone, Antwerp, 238 million tonnes were transhipped in 2019, more than in Hamburg and Bremen combined. Belgium is an extremely open economy, with imports accounting for about 83 per cent of Gross Domestic Product (GDP) in 2018 and exports as high as 85.9 per cent. However, the transit also breeds numerous re-export activities.

The fall in world trade also weakens the Belgian economy. According to the European Commission (EU), exports of goods and services are expected to go up only by 1.2% in 2020, which is the main reason for the overall GDP growth of only 1%. Nonetheless, 2020 growth will remain broad-based, since consumption (+1.2%) and investment (+1.7%) will go up. This opens up good opportunities for German suppliers, since domestic demand is expected to grow by 1.3% overall and imports by 1.6% in 2020.

However, very large regional differences in economic power remain problematic. Belgium is divided into Dutch-speaking Flanders, francophone Wallonia and bilingual Brussels. In 2017 the GDP per capita in Brussels was 68% higher than the Belgian average and in the rest of the Flemish country it was 42% higher than in Wallonia. Flanders is currently experiencing the most dynamic development. The Federal Planning Bureau, the Belgian public analytical institute, expects Flemish GDP to grow by 1.5 percent in 2020, which is more than in Wallonia (+1.2 percent) and Brussels (+0.9 percent).

Regional autonomy has increased in recent decades. Changes in competences are accompanied by a heterogeneous and expanded administration. This, in turn, contributes to the European Commission's view that Belgium's public debt will remain high at 99.6% of GDP in 2020.

According to the European Commission, the Belgian investment is expected to grow by 1.7% in real terms in 2020 and act as a catalyst for the economy. Construction investments will go up by 1.7 percent and equipment purchases by 1.5 percent. Production capacity utilisation in the manufacturing sector in October 2019 was 79.4% and was down compared to the previous year (80.4%). However, according to a survey carried out by the Belgian central bank, the order book of the manufacturing industry has been constantly improving over the last three months of 2019. Regulated withdrawal of the UK from the EU could also lead to investment growth.

Various large projects open up business opportunities in Belgium. These include chemical and port projects in Antwerp, a new metro line in the north of Brussels and clinic projects throughout the country.

2.3.4. Projects executed in 2019

In 2019 ERBUD International Sp. z o.o. executed in Belgium projects with the total value of EUR 7 922 thous. including:

Employer	Name of contract	Contract value in '000 EUR
Groep VAN ROEY N.V.	Apartment building, Halle	20
Artem N.V.	Apartment building, Out-Turnhout	319
Jan De Nul	Office building, Verviers	75
THV Woonzorg Centrum-Zuid	Residential home, Merelbeke	791
Vanhout N.V.	Residential buildings, Sterrebeck	1.431
DCA	Apartment building Binnenvaert, Antwerp	828
Jan De Nul	Hospital, Aalst	658
THV Hoveniersstraat Turnhout	Apartaments, Turnhout	558
MBG	Hotel, de Panne	563
Baunv	Sint Niklaas, apartments	440
Artem	Apartaments, Brecht	609
S.M GILLY 2024	Hospital, Charleroi	1027
Baunv	Apartaments, Elzenhof	391
VH-ACH	Apartaments, Sint-Truiden	212

2.3.5. Opportunities and threats

The greatest threat to the Company at present is the unpredictable impact of Brexit on the countries in which ERBUD International operates. Certainly an issue is slowing down economy and scarce labour force. In these rather turbulent times, the strength of the organization is its excellent knowledge of the markets, having an established brand in these markets, trust of regular clients.

2.3.6. Strategic priorities

The strategic objective of ERBUD International is to strengthen its position in the Belgian and Dutch markets. In particular, the Company intends to take advantage of the current economic situation in Belgium for investments in public utility buildings (mainly hospitals and schools).

At the end of 2019 the Company's order book totalled PLN 13.6 million in value terms. At the end of 2018, the order book amounted to PLN 19.4 million.

2.4. GWI BAUUNTERNEHMUNG GmbH

2.4.1. Scope of activities

The ERBUD Group has been present on the German market since 1993. The Group operates on this market through GWI BAUUNTERNEHMUNG GmbH (GWI). This company, based in Düsseldorf, specialises in general construction.

At the end of December 2019 the headcount level at the GWI was 55 people. In 2019 the Company completed a restructuring process.

2.4.2. Statutory governing bodies

Since 1 January 2007, Axel Wahl has been CEO of GWI GmbH.

2.4.3. Market situation

In 2019, the gross domestic product in the Germany was up by 0.6%. This means that for the tenth year in a row the German economy has seen its gross domestic product grow. As Destatis explains, last year's prosperity is primarily the result of increased consumption, including a 1.6% increase in private consumer spending, a 2.5% increase in public spending and a 3.8% increase in gross investment. The construction sector was up by 4%.

The exports grew by 0.9%, whereas imports by 1.9%. The size of workforce was on average 45.3 million in 2019, more than ever since German reunification. Compared to 2018 the growth was approximately by 400 thous, people and by 0.9%. The German budget for the eighth time in a row recorded a budget surplus. The 2019 surplus was EUR 49.8 billion.

"This growth was the result of increased employment, primarily in the contributory employment sector. The increase in the percentage of the working population and the inflow of labour from abroad offset the demographic effects caused by the ageing of the population". - pointed out Destatis in his message.

2.4.4. Contracts signed in 2019

In 2019 the Company acquired contracts with a total value of approximately EUR 57 million, including, inter alia:

Contracts signed in 2019

Employer	Name of contract	Contract value in '000 EUR
Pflege Quartier Düren GmbH	Pflege Quartier Düren	17.600
Hüttemann Lotharstraße GbR	Lotharstraße 17, Düsseldorf	1.659
Upper Nord Tower GmbH & Co. KG	UNT Upper Nord Tower	23.980
Conesta Wohnen	APH Cotbusser Straße Düsseldorf	2.980
Instone Real Estate Development	Niederkasseler Lohweg 20 Düsseldorf	11.152

2.4.5. Major executed projects in 2019

In 2019 GWI completed the following projects:

- The construction of apartment buildings in Witzelstrasse Street in the City of Düsseldorf. The scope of works: building shell.
- The construction of KQ office building in Düsseldorf – building shell with a roof.
- Construction of Reuter C in Berlin - raw state works.
- Construction of APH Düren – closed building shell.
- Construction of FES Forschungsanlage – building shell.
- Construction of APH Dormagen – closed building shell and roofing.
- Construction of Essen Bordinghause - construction of building shall.

2.4.6. Opportunities and threats

Economic growth in 2020 will slow down and according to the German BDI German GDP will only increase by 0.5% compared to 2019. The economic slowdown is caused by problems with exports of the industrial sector in Germany and risks in the global economy - such as Brexit, US trade policy, etc.

2.4.7. Strategic priorities

GWI took advantage of the good situation in the construction market in Germany and focused on the Company's core business - i.e. performing open and closed building shell works. The remaining areas (construction on a turnkey basis as well as works in the power sector) were completed in 2018 and 2019. The Company does not classify these areas into its core business. An exception to this rule is the construction of a retirement home in Düren, where GWI is the main contractor, as well as the majority shareholder of the Special Purpose Vehicle (SPV).

The Company was undergoing restructuring in H2 2018 and in H1 2019. The level of employment and the work performed is adjusted to the Company's core business.

2.5. Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. (*Road Engineering Construction S.A.*)

2.5.1. Scope of activities

Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. (*Road Engineering Construction S.A.*) (PBDI) runs its activities in the following areas:

- Road works,
- Earthworks during the construction of shopping malls and other public utility buildings;
- Construction and power engineering works during the erection of wind and photovoltaic farms,
- Works related to the operation of wind and photovoltaic farms.

At the end of 2019, the total headcount at PBDI was 337 people.

2.5.2. Management Board

From 1 January 2019 to 31 December 2019 it operated with the following composition:

- Jacek Leczkowski – President of the Management Board,
- Paweł Średniawa – Vice-President of the Management Board.

On 7 January 2019, the Supervisory Board of PBDI S.A. appointed Mr Piotr Gutowski to the Company's Management Board, so that in the period from 7 January 2019 to 30 May 2019 the composition of the Management Board was as follows:

- Jacek Leczkowski – President of the Management Board,
- Paweł Średniawa – Vice-President of the Management Board.
- Piotr Gutowski – Vice-President of the Management Board,

On 30 May 2019, Mr Jacek Leczkowski resigned from the position of the President of the Management Board with immediate effect; therefore, on 31 May 2019, the Supervisory Board of PBDI S.A. appointed the Company's Management Board for a joint three-year term of office with the following composition:

- Paweł Średniawa – President of the Management Board,
- Piotr Gutowski – Vice-President of the Management Board,
- Marcin Szerszeń - Vice-President of the Management Board

2.5.3. Market situation

Last year was another tough year for the construction sector. The infrastructure segment was characterised by the completion of contracts that had been still signed in 2015 and 2016. The dynamic increase in prices over the past year led to the interruption of several large projects and the termination of contracts between the General Directorate for National Roads and Motorways and contractors. The disruption of works execution led to a decline of the demand for aggregates, asphalt and subcontracting services, which in turn contributed to price stability. In the first half of the year we observed an increase in the number of new projects submitted for implementation and carried out by provincial road managers and local governments. On the other hand, after the parliamentary elections, the number of investment projects undertaken by this segment of investors dropped significantly. While there are still a lot of tenders in the pipeline for road and railway works with EU part financing awaiting contract award, the number of local government investment projects will definitely fall, so local construction companies will face cut-throat competition.

In 2019, the construction segment for the renewable energy sector was characterized by the execution of projects (both wind and photovoltaic), which became the beneficiaries of the auctions where contracts were still awarded in 2018.

The declining growth rate of the construction activity in the market in the first half of last year affected the demand for construction workers. The construction companies still suffer from a shortage of labour force. They make up for their staff shortages with workers from Ukraine and Belarus, and more and more often reach for workers from Asian countries. Many representatives of construction companies are afraid of the emigration of workers to Germany after opening of German labour market to the workers from the East.

The persisting low profitability of the sector affects the decisions of financial institutions, which are more cautious before they get involved with financing of the sector players.

2.5.4. Contracts signed in 2019

Contracts signed between 1 January 2019 and the Report Date
(with a unit value exceeding PLN 3,000 thousand)

Contract Date	Investor	Subject of the Contract	Net contract value in '000 PLN
10 Oct. 2019	Windfarm Polska II sp. z o.o.	design, execution, equipment fitting, delivery, construction, testing and start-up of a wind farm in the locality of Barwice*	41.350
5 April 2019	The Municipality of the City of Toruń	Redevelopment of Ceramiczna, Szczęsna and Ukośna Streets in the City of Toruń	4 095
12 Apr. 2019	The Zachodniopomorskie Province (Western Pomerania)	Construction of a network of cycling routes in the Western Pomerania region - Seaside route - Pleśna - Mielno	4 953
11 Apr. 2019	Polenergia Farma Wiatrowa 17 sp. z o.o.	Construction of Sulechów PV farm	5 057
23 May 2019	Park Wiatrowy Gaworzyce sp. z o.o. (*Gaworzyce Wind Farm*)	Construction of the Żukowice wind farm	24 765
12 Jun. 2018	Potegowo Mashav Sp. z o.o.	Construction of Potęgowo Wind Far - West**	136 865

30 May 2019	The Chełmo county	Rebuilding of Starogród - Kijewo Królewskie county road	3 787
17 Jun. 2019	The Municipality of the City of Toruń	Renovation of Żółkiewskiego Street in the City of Toruń	5 786
11 Jul. 2019	The Kołobrzeski County	Reconstruction of Wylotowa Street in the City of Kołobrzeg	3 055
11 Jul. 2019	European Wind Farms Polska sp. z o.o	Construction of Grzmiąca PV Farm	5 900
24 Jul. 2019	The Koszaliński County	Extension of the county road No. 3504Z within the boundaries of the Town of Mielno	8 570
8 Aug. 2019	Park Wiatrowy Lichnowy sp. z o.o.	Construction of the Lichnowy Wind Farm	22 980
23 Aug. 2019	Quadran Wind Park 6 sp. z o.o.	Construction of Solma photovoltaic farms	15 628
19 Sept. 2019	The Municipality of the City of Toruń	Extension of DK91 national road along Grudziądzka Street in the City of Toruń	6 733
27 Sept. 2019.	Balzola Polska sp. z o.o.	Asphalt works.	4 350
4 Oct. 2019	Quadran Wind Park sp. z o.o.	Construction of the Parzęczew Photovoltaic Farm	13 235
4 Oct. 2019	EW Niechanowo sp .z o.o.	Construciotn of Września Wind Farm	12 233
5 Nov. 2019	Polenergia FW Szymankowo Sp. z o.o.	Construction of Szymankowo Wind Farm	37 050
6 Nov. 2019	GB Dębowa Łąka 402 Sp. z o.o.	Construction of Dębowa Łąka Photovoltaic Farm	56 892
6 Nov. 2019	GB Świecie 404 Sp. z o.o.	Construction of the Świecie Wind Farm	22 361
6 Nov. 2019	GB 12W 212 Sp. z o.o.	Construction of GB 12W Wind Farm	4 847
24 Jan. 2020	OX2 Construction AB	Construction of the Żary Wind Farm	19 518
27 Jan. 2020	ENERTRAG Aktiengesellschaft	Construction of the Białogard Photovoltaic Farm	75 000

* The conditional agreement signed on 12 June 2018 entered into force on 21 May 2019. Project implemented in a consortium with ERBUD S.A. based in Warsaw and Electrum Sp. z o.o. based in Białystok. The value of the scope of works executed by PBDI is PLN 65,623.9 thousand.
* The project is implemented in a consortium with ERBUD S.A. with its registered office in Warsaw and Electrum sp. z o.o. with its registered office in Białystok. The value of the scope of works executed by PBDI is PLN 29,499.6 million.

2.5.5. Total executed projects in 2019

The key projects implemented by PBDI in 2019 include:

- Extension and redevelopment of provincial road No. 209 at the Suchora - Bytów section,
- Expansion of the Toruń Technopark,
- Execution of construction activities on the site of the Potęgowo wind farm
- Construction of a tram route along Kujawska Street at the section from the Kujawski Roundabout to the Bernardyński Roundabout in Bydgoszcz together with the extension of the road system,
- Construction and start-up of photovoltaic farms with a total capacity of over 33 MW.

2.5.6. Opportunities and threats

The potential and needs of road construction market in Poland is enormous. The 2014-2023 National Road Construction Programme for (with a time horizon until 2025) is still under implementation. It assumes large expenditures on the construction of expressways, motorways, ring roads and maintenance of technical standards of the existing road network.

Burdens pressing local government budgets reduce the number of projects implemented by this investor category. The problem of financing infrastructure projects will grow after the end of the current EU financial perspective. One of the way outs of such a situation may be more frequent use of the public-private partnership formula as a way of financing investments.

Good prospects for the segment of Renewable Energy Sources (RES). The year 2019 was marked by the implementation of projects which guaranteed their support in auctions in 2018. The consecutive auctions for the sale of electricity from new RES installations carried out in Q4 2019 gave a positive outcome for subsequent projects. The stagnation on the wind construction market led to the situation where in the period 2016-2019 the process of developing new projects was not carried out, thus further projects may not be submitted for subsequent auctions.

The large accumulation of construction work in the short term carries risks associated with the material price hikes and availability (limited production capacity, logistics and transport constraints). A high risk for construction companies is the shortage of labour, which has been observed for quite a long time, and thus significantly swelling wage costs. Construction companies try to mitigate these risks by employing foreigners. The opening of the German labour market to workers from Ukraine may be a cause for concern.

Persistent low profitability and deteriorating cash flow of construction companies may make financial institutions to turn away from this sector and reduce flow of funds through credit lines and guarantee lines to finance working capital requirements and provide performance bonds for contracts underway.

2.5.7. Strategic priorities

PBDI S.A. is one of the construction leaders in the renewable energy sector in Poland. The Company takes steps to maintain its leading position in this construction segment. Both in the construction of wind farms and photovoltaic farms. At the same time, the Company remains active on its traditional road engineering market. This activity is currently focused on the markets of the Kujawsko-Pomorskie and Zachodniopomorskie provinces, where the Company's bituminous mass plants are located. An important project for the Company is the construction of a section of the S3 expressway (from Kamienna Góra to the state border), executed under a contract signed in 2018. This year, this project, after the design phase, will enter the implementation phase.

We are confident that the objectives we have set ourselves for the coming years will be achieved, and the engine behind the Company's development is its team made up of young people with high technical competence, for whom construction is their passion.

The Company walked into the year 2020 with an order book worth more than PLN 650 million, of which over PLN 280 million is to be executed in 2021-2022. For comparison sake - the year 2019 the Company started with an order book worth PLN 530 million.

2.6. ERBUD Industry Sp. z o.o.

2.6.1. Scope of activities

ERBUD Industry Sp. z o.o. with its registered office in the City of Toruń was established in December 2000. It is the parent company for the ERBUD Industry Capital Group, which consists of the following companies:

- Erbud Industry Centrum Sp. z o.o.
- ERBUD Industry Pomorze Sp. z o.o.,
- ERBUD Industry Południe Sp. z o.o.

There are two operational divisions at ERBUD Industry Sp. z o.o.:

- Engineering Division, which focuses on offering such services as: modernization of industrial and power engineering facilities, construction of process lines, preparation of large projects.
- Maintenance Division, focusing on the activities of subsidiaries, which offer services in the fields of: construction, repairs, modernization of industrial and power systems, diagnostics of industrial machinery and equipment, organizational and technical consulting and technical research.

In 2019 the Company was involved in the acquisition and execution of engineering and construction projects as well as maintenance services for the power sector and industry.

ERBUD Industry Sp. z o.o. applies integrated management system and has experience concerning comprehensive execution of industrial facilities, including indoor and outdoor infrastructure, design and execution of process lines, especially for power sector and industry, and comprehensive execution of engineering and technical facilities and holds the following certificates:

- PL-EN ISO 9001:2015,
- PN-EN 14001:2015,
- PN-ISO 45001:2018

At the end of 2019 the headcount level at the Company was 46 people.

2.6.2. Statutory governing bodies

In the period from 1 January to 31 December 2019 the Management Board of ERBUD Industry Sp. z o.o. consisted of:

- Mirosław Białogłowski a Management Board Member
- Paweł Zaorski a Management Board Member
- Marcin Nowicki a Management Board Member

On 30 December 2019 Paweł Zaorski resigned from the position of a Management Board Member with effect from 31 December 2019.

2.6.3. Market situation

In the segments of energy and industrial construction, there is still medium to low level of started projects. The process of modernization of power facilities in the district heating segment is underway, involving their adaptation to new emission standards or replacement of old coal-fired units with modern and highly efficient gas-fired units, in which the Company sees a market opportunity. .

2.6.4. Executed projects in 2019

In 2019 key executed projects included:

- construction on a turnkey basis of limestone grinding plant based on a replacement of 2 mills type DF-90 Nos. 1 and 2 along with upgrading of the sorbent preparation system at the Turów Power Plant for PGE GiEK SA operator.
- execution of construction works as part of the construction of a multi-fuel 220MWe power unit at the Zabrze Combined Heat and Power Plant for Fortum Silesia SA Częstochowa,
- Construction of a turnkey basis of a gas-fired boiler house based on a 42MWt boiler at the Michelin's Olsztyn tyre manufacturing plant for Michelin Polska SA,
- construction on a turnkey basis of flue gas cleaning system including catalytic denitrification (SCR) process and flue gas dedusting process along with the upgrading of boiler No. 2 OP-215 at Puławy Nitrogen Fertilizers Plant for ZA Puławy SA.

2.6.5. Major contracts signed in 2019

On 26 November 2019 the Company acting in a consortium with ERBUD S.A. signed a contract with TAURON Ciepło sp. z o.o. for the construction of a semi-dry flue gas cleaning system for the BC 50 power unit and a stand-by WR-40 boiler for TAURON Ciepło sp. z o.o. Tychy Generation Plant. On 10 January 2020 TAURON Ciepło Sp. z o.o. advised the consortium that on 10 January 2020 it received a decision of the Marshal of the Śląskie Province on the modification of the integrated permit for the Tychy Generation Plant, concerning the granting of a derogation from the boundary emission limits specified in the BAT Concept. Therefore TAURON Ciepło Sp. z o.o. demanded from the consortium to suspend the execution of the above contract and expressed its willingness to conclude a memorandum of understanding (MoU) between the parties, regulating the withdrawal from the execution of the contract by the parties, under the terms and conditions specified by them. On 5 March 2020, the MoU was concluded under which TAURON Ciepło sp. z o.o. terminated the aforementioned contract and undertook to reimburse the costs that had already been incurred by the Consortium.

On 26 November 2019 the Company acting in a consortium with ERBUD S.A. signed a contract with TAURON Ciepło sp. z o.o. for the construction of a semi-dry flue gas cleaning system for the BCF 100 power unit for TAURON Ciepło sp. z o.o., the Katowice Generation Plant. At the same time, before entering into the above-mentioned contract, TAURON Ciepło Sp. z o.o. informed the consortium that on 25 November 2019 it received a decision of the Marshal of the Śląskie Voivodeship on the change of the integrated permit for the Katowice Generation Plant, concerning the granting of a derogation from the emission limits specified in the BAT Concept, therefore it does not intend to issue an notice to proceed with works and expressed its willingness to conclude a memorandum of understanding of the parties, regulating the withdrawal from the execution of the contract by the parties, under terms and conditions specified therein. On 17 December 2019, an MoU was concluded under which TAURON Ciepło sp. z o.o. terminated the aforementioned contract and undertook to reimburse the costs to the Consortium that had been incurred in connection with the establishment of a performance bond for the aforementioned contract.

On 9 December 2019 the Company signed an contract for the construction of new peak load sources at PGE Energia Ciepła S.A. The Seaside Branch of the Gdansk CHP Plant.

2.6.6. Opportunities and threats

The energy infrastructure in Poland requires a thorough modernization in terms of reducing CO2 emissions, faster development of Renewable Energy Sources (RES) and boosting reliability of energy supplies.

The Energy Regulatory Office estimated that the total capital expenditures on power sector construction activities scheduled in 2014-2028 totals PLN 97 billion. Poland has also taken up the challenge of achieving the greatest possible climate neutrality by 2050 as set by the European Union (EU).

At the same time, the launch of the cycle of necessary investment projects is delayed by the contracting authorities due to lack of financial resources, which results in very high price competition among contractors trying to win contracts.

2.6.7. Development directions

The main strategic objectives of ERBUD Industry Sp. z o.o. include:

- To attain a significant position in the modernization of energy and heating generation and distribution sources in connection with the need to adapt these sources to the new emission standards by building new high-performance gas-, biomass- or waste-fired units.
- To acquire competences concerning the construction of biogas plants.
- To maintain a position in the construction of environmental protection systems.
- Secure business development - a responsible partner. A sustainable growth of turnover, achievement of assumed targets, maintaining liquidity.

The aim of ERBUD Industry Sp. z o.o. is to increase the scale of its operations thanks to its ability to provide comprehensive services for investment projects in the field of design and construction, not only of facilities fulfilling the requirements of the energy and industry sector, but also of systems meeting the most stringent technical and environmental standards.

2.7. ERBUD Industry Pomorze Sp. z o.o.

2.7.1. Scope of activities

The core business of ERBUD Industry Pomorze Sp. z o.o. with its registered office in Gdańsk are the maintenance services of power, electrical and industrial equipment, repairs and modernization of power and industrial facilities, construction of pipelines, electrical systems and prefabrication of steel structures.

The Company has two branches: in Gdańsk and Toruń. At the end of 2019 its headcount was 94 people (103 on average)

2.7.2. Statutory governing bodies

- ERBUD Industry Pomorze Sp. z o. o. Supervisory Board – no Supervisory Board
- Management Board of ERBUD Industry Pomorze Sp. z o. o.

From 1 January 2019 to 4 February 2019, the Company's Management Board was composed of:

- Roman Nagórski President of the Management Board
- Janusz Gorczyński Vice-President of the Management Board

On 4 February 2019 the Company received a resignation from Janusz Gorczyński from the position of Vice-President of the Management Board, so between 5 February 2019 and 6 February 2019 the Management Board was composed of one person, represented by Mr Roman Nagórski - President of the Management Board.

On 5 February 2019 the Extraordinary General Meeting of Shareholders of ERBUD Industry Pomorze Sp. z o. o. by virtue of Resolution No. 1/2019 dismissed Mr Roman Nagórski from the position of President of the Management Board effective from 6 February 2019, and appointed Mr Nagórski to the position of Vice-President of the Management Board effective from 7 February 2019.

The Extraordinary Meeting of Shareholders of ERBUD Industry Pomorze Sp. z o. o. by virtue of Resolution 2/2019 appointed Mr Paweł Zaorski to the position of the President of the Management Board of the Company with effect on 7 February 2019.

In view of the above, the Management Board of the Company ERBUD Industry Pomorze Sp. z o. o. from 7 February 2019 to 30 June 2019 was composed of:

- Paweł Zaorski President of the Management Board
- Roman Nagórski Vice-President of the Management Board

On 18 June 2019 the Company received the resignation of Mr Nagórski from the position a Vice-President of the Management Board, effective as of 30 June 2019.

In the period from 1 July 2019 to 30 September 2019 the Management Board of ERBUD Industry Pomorze Sp. z o. o. consisted of a single person, represented by Mr Paweł Zaorski - President of the Management Board.

On 24.09.2019, the Company's Extraordinary General Meeting of Shareholders appointed Mr Jarosław Główczyński to the position on the Management Board effective from 1 October 2019.

Given the above changes, in the period from 1 October 2019 to 31 December 2019, the Company's Management Board was composed of:

- Paweł Zaorski President of the Management Board
- Jarosław Główczyński a Management Board Member

2.7.3. Executed projects in 2019

The Company's major projects focused on maintenance and repair works for the commercial and industrial power industry. The largest projects included "upgrading of Electrostatic Precipitator (ESP) No. 1 along with modernization of dust transport system" for JSW KOKS S.A, mounting of the OG55 boiler at Michelin Polska S.A. for SEFAKO S.A. and installation of a structure for Erbud Industry sp. z o.o. as part of the project "Redevelopment of the existing CHP plant at Michelin Polska S.A. consisting in demolition of the technical building and installation of a new natural gas-fired steam boiler along with retrofitting of the necessary infrastructure - with simultaneous reduction of the existing coal-based fuel combustion sources". In addition, the Company carried out works, *inter alia*, for Fortum Power and Heat OY involving the delivery and assembly of SNCR system as part of the project titled "Modernisation of the flue gas cleaning system at the Rejtana District Heating Station in the City of Częstochowa" and "Extension of the existing SNCR system by adding TwinNOx system at the Kraków CHP Plant", "Installation of K5 steam boiler" for Steico. "Replacement of 1XA and 2XK1 exchangers on the site of PGE Energia Ciepła SA" for Energoremont Sp. z o.o. and "Conversion of K2 Electrostatic Precipitator (ESP) to a hybrid for ZA Puławy SA for Blacke Durr.

The Company acquired new customers, including JSW Koks. The business relationship with Outoteck GmbH was maintained and the Company produced for the customer tanks and steel structures for the chemical industry.

2.7.4. Development directions

The Company intends to widen the scope of its activities through:

- diversification of order acquisition sources and, within 5 years, leading to a share of approx. 50% (currently 85%) in the sales of services to the PGE market for the Gdańsk Branch
- recovery of temporarily lost maintenance contracts for electrical and mechanical works at PGE
- restoring the market position in the segment of low and medium power rotating machines
- activities aimed at extending the range of services on the site of LOTOS S.A. Group - The Company is in the process of signing a framework agreement in the mechanical industry for the years 2020-2022 and negotiating the submitted offer for "SPRING 2021/2022 Repair Works".
- restoring the leading position among contractors operating at PGE in the near future
- searching for new competencies on the market - e.g. modernisation of small coal-fired biomass boilers (inquiry from Steico for 4 OR 32 boilers)
- collaboration with the member companies from ERBUD Industry Group

- acquisition of the customers located in northern Poland: Elbląg CHP; Michelin Olsztyn; Engie Słupsk CHP; ZF Polpharma Pharmaceutical Works and Starogard CHP; Anwil S.A. Włocławek; IP Kwidzyn Paper Works and Mondi Świecie; Kronospan Szczecinek, GZNF Fosfory.

In December 2019, the value of Company's order book was PLN 9.3 million, compared to PLN 9.6 million a year earlier.

2.8. Erbud Industry Centrum Sp. z o.o.

2.8.1. Scope of activities

Erbud Industry Centrum Sp. z o.o. (formerly Engorem Sp. z o.o.) with its registered office in Łódź was established in 1994, it operates in the service sector and specialises in repairs of power, heating, electrical, control and measurement equipment (Control and Measurement Instruments and Automation) and industrial and municipal systems.

At the end of 2019 the headcount level at the Company was 392 people.

2.8.2. Statutory governing bodies

In 2019 and as of Management Board Activity Report date, the Company's Management Board consisted of:

- Paweł Mścichowski President of the Management Board, CEO
  From 1 January 2019 to 27 September 2019
- Paweł Zaorski - President of the Management Board
  From 1 October 2019
- Michał Bursa - Vice-President of the Management Board
  From 1 January 2019
- Marcin Stasiak - Vice-President of the Management Board
  From 1 October 2019

In the period from 1 January 2019 to the Report Date, the Company's Supervisory Board was composed of:

- Paweł Zaorski The Chairman of Supervisory Board
  From 1 January 2019 to 30 September 2019
- Dariusz Grzeszczak the Chairman of the Supervisory Board
  From 1 October 2019 to 31 December 2019
- Mirosław Białogłowski Deputy Chairman of the Supervisory Board
  From 1 October 2019 to 31 December 2019
- Marcin Nowicki - A Supervisory Board Member
  From 1 October 2019 to 31 December 2019
- Joanna Piersa - Secretary of the Supervisory Board
  From 1 October 2019 to 31 December 2019

2.8.3. Total executed projects in 2019

The Company carried out mainly overhauls of basic equipment in the area of Łódź Combined Heat and Power Plants, commissioned by Veolia Łódź S.A. During the summer shutdown of the plants, repairs were also carried out on the water supply and steam network fittings and auxiliary, electrical and control equipment. As part of its work in the district heating sector, the Company carried out repairs and modernization of district heating networks and built new district heating connections and modernized heat substations.

Apart from Łódź, the Company carried out significant repairs in the market of CIECH Janikowo and Inowrocław for a total amount of almost PLN 15 million, a one-year review and periodic overhaul after the second year of operation of the Municipal Waste Thermal Treatment Plant in Konin was carried out, works were continued on delivery of equipment maintenance services and technological infrastructure for the Pfleiderer Group plants in Wieruszów and Grajewo.

2.8.4. Expected development

In 2020 the company envisages development activities in new business areas in accordance with the planned strategy, aimed at diversifying the company's activities in the chemical, paper, food, waste disposal and biogas plants sectors in addition to the current scopes in the energy sector. In December 2019, the value of Company's order book was over PLN 24 million, compared to PLN 38 million a year earlier.

2.9. ERBUD Industry Południe Sp. z o.o.

2.9.1. Scope of activities

ERBUD Industry Południe Sp. z o.o. based in Będzin is present in the market since July 1998. It provides repair and maintenance services for equipment installed at power plants, combined heat and power plants and industrial plants.

The Company's operational activity is currently carried out in the design system, including permanent maintenance tasks.

At the end of December 2019 the total headcount was 101 workers at ERBUD Industry Południe Sp. z o.o.

2.9.2. Statutory governing bodies

In the period from 1 January to 31 December 2019 the Management Board was represented by:

- Dariusz Badeja – President of the Management Board
- Ewę Chachulska – a Management Board Member

From 1 January 2019 to 4 February 2019, the Supervisory Board of ERBUD Industry Południe was composed of 3 members, i.e.:

- Marcin Nowicki the Chairman of the Supervisory Board (Supervisory Board Resolution EIC 15/2018 dated 27 April 2018)
- Mirosław Białogłowski Deputy Chairman of the Supervisory Board (Supervisory Board Resolution EIC 16/2018 dated 27 April 2018)
- Joanna Piersa - Secretary of the Supervisory Board

On 5 February 2019 the Extraordinary Meeting of Shareholders of ERBUD Industry Południe Sp. z o. o. appointed the fourth Member of the Supervisory Board to act as Chairman of the Supervisory Board.

Since 5 February 2019 the Company's Supervisory Board has consisted of the following persons:

- Paweł Zaorski the Chairman of Supervisory Board
- Mirosław Białogłowski Deputy Chairman of Supervisory Board
- Marcin Nowicki a Supervisory Board Member
- Joanna Piersa - Secretary of the Supervisory Board

2.9.3. Executed projects in 2019

During 2019 ERBUD Industry Południe sp. z o.o. executed, inter alia, the following projects:

Systemic power engineering sector:

- major refurbishment of the fluidised bed boiler OFz425 K2 Row for Tauron Generation
- major overhaul of OP650 K7 boiler for PGE Rybnik

- modernisation of the slag removal transfer building for PGE Rybnik
- overhaul of the pressurized part of the OP650 boiler for the PGE Dolna Odra
- maintenance of the wet desulphurisation system for the PGE Rybnik
- Air pre-heater (LUVO) routine maintenance for the PGE Rybnik
- routine maintenance of boilers Nos. 1-8 for the PGE Rybnik

District heating:

- repair of fixtures and pipelines at Zofiówka CHP Plant for the PGNIG Termika
- replacement of the boiler burner system at PEC Gliwice
- maintenance of pressure systems and boiler equipment for PGNIG Termika EP
- maintenance of boiler equipment at District Heating Plant ZEC K-ce Dalkia
- maintenance of boiler equipment at District Heating Plant PEC Gliwice
- repair of electrostatic precipitators (ESPs) of OP140 and WP70 boilers at Będzin CHP Plant
- prefabrication of heat pipe pressure elements for Logstor

Heat distribution networks for Tauron Ciepło:

- Leopold heat service connection at Katowice
- "ZIO" redevelopment at Zawiercie
- Karolina heat service connection at Katowice
- Dmowski heat service connection at Zawiercie
- Szopena heat service connection, Moniuszki, Mysłowice

Foreign projects:

- France - installation of a complete biomass-fired boiler in the locality of Annecy for Leroux & Lotz
- France - modernisation of steam pipelines of a fluidised bed boiler for Bertsch Energy
- Sweden - renovation of boiler grate for the incinerator at Linkoping for Allsvets

Industry:

- modernisation of the soda boiler in the area of start-up system for Stora Enso Ostrołęka
- repair of the sintering strip flue gas removal system in Arcelor Mittal Poland
- installation of the hot air system at Synthos
- repair of the boiler grate for EIC at Konin incineration plant

2.9.4. Expected development

ERBUD Industry Południe Sp. z o.o. intends to continue its operations on the existing market, while emphasizing the development of its competences, mainly in the pressure area, especially for the energy, heating, metallurgy and paper industries. Taking advantage of the formal and legal environment, including anti-smog acts, the Company intends to continue to develop its operations around district heating networks in the Silesian market.

Moreover, due to its erection competence, the company is dedicated to cooperation on foreign projects in Germany, France, Sweden and Norway.

It is expected that the demand for energy in the National Power System as well as for system heat will be growing at a pace of 0.5-2% annually over the next few years. However, if GDP growth slows down, energy consumption will remain at current levels.

A stable growth of the market of repair and maintenance services is expected, driven, *inter alia*, by the modernisation needs related to the requirements of Directive 2001/80, as well as from the commencement of projects to modernise district heating networks.

The market for energy services is characterised by intense competition and high bargaining power of service buyers. In the Company's opinion, one of the effective methods to meet market requirements (without incurring high capex) is to develop a rational model of cooperation and strategic alliances. The focus should be on offering complex services in the area of high competence of organisations, which ensure profit and the possibility to cooperate with competitors (*inter alia* by merging into consortia).

Maintaining the level of sales of repair and maintenance services in the power sector, simultaneous performance of erection works in foreign markets, development of repair services for the metallurgical industry with the potential for implementation allow to forecast positive performance of the Company in 2019-2020.

In December 2019, the value of Company's order book was PLN 19.6 million, compared to PLN 24.3 million a year earlier.

2.10. ERBUD Shared Services Sp. z o.o. (former ERBUD CUW Sp. z o.o.)

2.10.1. Scope of activities

In 2019 ERBUD Shared Services Sp. z o.o. acted as a back office service provider for the ERBUD GROUP (accounting, HR and payroll, fleet management, IT services). The Company's registered office is in Warsaw.

On 31 December 2019 the headcount level at the Company was 64 people.

There are two councils of strategic importance within the Company: the Technical Board, to which services are currently provided by 5 people, and the Strategic Board, to which services are also provided by 5 people. The company works on an outsourced basis with advisors.

2.10.2. Statutory governing bodies

On 20 December 2017, the Extraordinary General Meeting of ERBUD Shared Services Sp. z o.o. appointed Ms Mariola Zielińska as the President of the Management Board. The resolution came into force on 1 January 2018.

As of the Report Date, the Management Board of ERBUD Shared Services Sp. z o.o. is composed of one person:

- Mariola Zielińska – President of the Management Board

2.10.3. Plans for 2020 and beyond

- ERBUD Shared Services Sp. z o.o. on the basis of agreements concerning the provision of business consulting services and accounting, HR and payroll, administrative, IT and office space rental services provided in 2019 and will continue this activity in the following years.
- Within ERBUD Shared Services Sp. z o.o., the ERBUD Group will centralise and standardise maintenance processes. These measures are to contribute to the increase of operational efficiency and reduction of operating costs of individual companies of the Group.
- In 2019, the implementation of the integrated IT programme in the ERBUD Group was launched. ESS is the leader of the implementation process. The implementation is planned to be completed by the end of 2020. The objective of the ESS Board is the timely completion of the implementation. The implementation of the new software will speed up reporting

processes across the Group and contribute to the development of better quality management information.

2.11. ERBUD Operations Sp. z o.o.

2.11.1. Scope of activities

In 2019 Erbud Operations Sp. z o.o. provided construction services and in the following years the Company plans to conduct and develop its current construction activities in the following segments:

- general contracting of construction works,
- execution of construction works in specialized fields, mainly reinforced concrete works carried out for the Erbud Group companies and directly for the Investor,
- participation in the implementation of larger projects through consortia, in particular from Erbud SA
- implementation of projects in the "design and build" and "design and supervise" systems.
- coordination and technical training concerning works performed by Hebud Sp. z o.o. and other companies from the ERBUD Group,
- professional advisory services concerning subject matter support in the field of:
  - coordination of activities related to the acquisition of personnel from outside Poland,
  - activating activities to acquire and maintain business contacts with businessmen from outside Poland,
  - support for the Company's promotional activities in the foreign market (especially Belarus, Ukraine, Kazakhstan).

The experience and practice of highly qualified personnel allows for optimism in the development of this service segment. Contracts concluded to this extent are characterized by an option of covering the costs of execution of the subject matter of the contract based on the profit calculation. The Company, in cooperation with financial institutions (banks: BGK, Pekao SA, Mbank), also analyses an option of executing building contracts with pre-financing (principle of debt redemption by the Bank). Recently, the Company's Management Board has noticed the offer opportunities in this area. Given the above, further stable development of the Company operating within the ERBUD Group may be continued.

2.11.2. Management Board

As of 31 December 2019 The Company's Management Board consisted of:

- Mirosław Młynarski President of the Management Board,

2.11.3. Market situation

The situation in the construction market in 2019 was ambiguous. Contrary to expectations Erbud Operations summed up the year 2018 extremely well, but reserving a deterioration in 2019, which occurred. The growth rate has dropped significantly. As stated in the latest report titled "The situation of the construction sector. Improvement of the sector's condition in the conditions of moderate economic cooling" by InfoMonitor Business Intelligence Office in cooperation with the Polish Association of Construction Employers, the H1 2019 was marked by a moderate cooling of the economic situation, mainly due to the work slowdown in the transport infrastructure segment and the weakening of investment growth rate in local government segment. But the fall in the number of projects underway has contributed to the stabilisation of prices of materials, services and salaries in the construction market. This, in turn, translated into improved finances for construction companies. According to the authors of the report, the worst results are recorded by contractors involved in road construction, for which the contracts were signed in 2015-2017 (bids on the verge of profitability only to win a tender, lower prices of construction materials and labour costs, there is no consent from General Directorate for Road Construction and Motorways (GDDKiA) for indexation of previously concluded contracts), here we are dealing with a significant decline in profitability.

When the intensity of work in the construction market weakened in the first half of the year, the construction companies reduced their employment needs for blue-collar workers, and record high wage

pressure in the construction sector diminished. The problem for construction companies is still a shortage of skilled workers, and here competition by means of wages is to be expected. Construction companies are filling their staffing shortages with workers from Ukraine and Belarus, and more and more often they are reaching for workers from Asian countries, including Nepal, Bangladesh and the Philippines. Here, however, the situation may change to the detriment of Polish companies, because in 2020 the German labour market opens up to the workers from the East, and since it is more attractive than ours (the heads of the largest construction companies even claim that the foreigners they employ learn German after working hours), one has to reckon with the outflow of labour force. Also with a view to continuous development, Erbud has opted for the creation of specialised departments in the field of construction works, mainly reinforced concrete.

ERBUD Operations recorded lower profitability in 2019 than in 2018, which was due to the large capital expenditures specifically aimed at developing a specialized department for the implementation of reinforced concrete works using its own resources.

Given that in today's world only specialists in given fields are able to compete effectively and efficiently, Erbud Operations focuses on services within the construction industry. Over the recent years, the Company's reliable approach has allowed for a significant development of the company resulting in the establishment and expansion of specialized departments (Design, Supervisory, Construction with specialization in reinforced concrete works using their own resources).

2.11.4. Contracts signed in 2019

Zamawiający	przedmiot kontraktu	wartość kontraktu netto	okres realizacji
BOUYGUES IMMOBILIER POLSKA Sp. z o.o.; al. Armii Ludowej 14; 00-638 Warszawa	Umowa o zastępstwo Inwestorskie "Budowa Wielorodzinnego budynku mieszkalnego z usługami i miejscami postojowymi w poziomie przyziemia, z garażem podziemnym i niezbędną infrastrukturą techniczna na działce o numerze 8 i 9 A-M 12 z obrębu Plac Grunwaldzki, przy ul. Krętej we Wrocławiu, dzielnica Śródmieście pod nazwą handlową inwestycji: "Zajezdnia"."	699 900,00	25.04.2019-31.03.2021
Szpital Specjalistyczny im. Ludwika Rydygiera w Krakowie sp. z o.o. os. Złotej Jesieni 1 31-826 Kraków	Wykonanie prac termomodernizacyjnych na budynku głównym Szpitala Specjalistycznego im. Ludwika Rydygiera w Krakowie sp. z o.o.	33 990 000,00	30.05.2019-30.11.2021
Promenady Zita sp. z o.o. z siedzibą we Wrocławiu przy ul. Dąbrowskiego 44, 50-457 Wrocław	„Wykonanie prac aranżacyjnych i wykończeniowych w lokalu użytkowym o powierzchni 563,5 m2 zlokalizowanym na parterze w budynku Promenady ZITA – segmenty A i D oraz w lokalu użytkowym najemcy Fortum Power and Heat Polska sp. z o.o. zlokalizowanym na 4 piętrze w budynku Promenady ZITA – segment C zlokalizowanym w obiekcie PROMENADY ZITA we Wrocławiu"	91 081,29	17.05.2019-26.07.2019
Promenady Zita sp. z o.o. z siedzibą we Wrocławiu przy ul. Dąbrowskiego 44, 50-457 Wrocław	„Wykonanie prac aranżacyjnych i wykończeniowych w lokalu użytkowym o powierzchni 563,5 m2 zlokalizowanym na parterze w budynku Promenady ZITA – segmenty A i D oraz w lokalu użytkowym najemcy Fortum Power and Heat Polska sp. z o.o. zlokalizowanym na 4 piętrze w budynku Promenady ZITA – segment C we Wrocławiu przy ulicy Słonimskiego 1-1A"	1 065 000,00	17.05.2019-30.08.2019
Samodzielny Publiczny Szpital Wojewódzki im. Jana Bożego w Lublinie z siedzibą: ul. Biernackiego 9, 20-089 Lublin	Roboty budowlane Lublin, ul. Herberta (AOS, POZ, Rehabilitacja), w ramach projektu „Poprawa efektywności działalności wojewódzkich podmiotów leczniczych w obszarach potrzeb zdrowotnych mieszkańców województwa lubelskiego poprzez niezbędne, z punktu widzenia udzielania świadczeń zdrowotnych, prace remontowo - budowlane, w tym w zakresie dostosowania infrastruktury do potrzeb osób starszych i niepełnosprawnych, a także wyposażenia w sprzęt medyczny"	5 595 000,00	24.06.2019-30.06.2020
Nałęczów Zdrój S.A. Drzewce 35, 24-150 Nałęczów	Przebudowa i rozbudowa Rozlewni Wody Mineralnej Piotrowice Małe.	2 875 798,75	05.07.2019-31.12.2019
Gmina Ciężkowice ul. Tysiąclecia 19 33-190 Ciężkowice	„Budowę parku zdrojowego na Rakutowej wraz z uzbrojeniem terenu".	17 391 042,79	18.07.2019-31.01.2021
Uniwersytet Medyczny w Łodzi z siedzibą w Łodzi (90 – 419), Al. Kościuszki 4	"Remont generalny i przebudowa Domu Studenckiego nr III w Łodzi przy ul. Mazowieckiej 12/16"	56 977 691,87	04.11.2019-30.04.2021

2.11.5. Implemented in 2019. (until Report Date).

Zamawiający	przedmiot kontraktu	wartość kontraktu netto	okres realizacji
Uniwersytet Medyczny w Łodzi z siedzibą w Łodzi (90 – 419), Al. Kościuszki 4	„Roboty budowlane polegające na Budowie Zespołu Poradni Specjalistycznych i Serwerowni w budynku A2 Centrum Kliniczno Dydaktycznego Uniwersytetu Medycznego w Łodzi przy ul. Pomorskiej 251 w ramach II etapu budowy CKD." **umowa konsorcjum Erbud Rzeszów Sp. z o.o. oraz Fast Group sp. z o.o. z siedzibą: w Warszawie przy al. 3 Maja 12, 00-391 Warszawa - zakres przypadający dla Lidera Erbud Rzeszów Sp. z o.o. to ok. 65%**	41 189 614,57	26.04.2018-22.01.2020
BOUYGUES IMMOBILIER POLSKA Sp. z o.o.; al. Armii Ludowej 14; 00-638 Warszawa	Umowa o zastępstwo Inwestorskie "Budowa Wielorodzinnego budynku mieszkalnego z usługami i miejscami postojowymi w poziomie przyziemia, z garażem podziemnym i niezbędną infrastrukturą techniczna na działce o numerze 8 i 9 A-M 12 z obrębu Plac Grunwaldzki, przy ul. Krętej we Wrocławiu, dzielnica Śródmieście pod nazwą handlową inwestycji: "Zajezdnia"."	699 900,00	25.04.2019-31.03.2021
Szpital Specjalistyczny im. Ludwika Rydygiera w Krakowie sp. z o.o. os. Złotej Jesieni 1 31-826 Kraków	Wykonanie prac termomodernizacyjnych na budynku głównym Szpitala Specjalistycznego im. Ludwika Rydygiera w Krakowie sp. z o.o.	33 990 000,00	30.05.2019-30.11.2021
Promenady Zita sp. z o.o. z siedzibą we Wrocławiu przy ul. Dąbrowskiego 44, 50-457 Wrocław	„Wykonanie prac aranżacyjnych i wykończeniowych w lokalu użytkowym o powierzchni 563,5 m2 zlokalizowanym na parterze w budynku Promenady ZITA – segmenty A i D oraz w lokalu użytkowym najemcy Fortum Power and Heat Polska sp. z o.o. zlokalizowanym na 4 piętrze w budynku Promenady ZITA – segment C zlokalizowanym w obiekcie PROMENADY ZITA we Wrocławiu"	91 081,29	17.05.2019-26.07.2019
Promenady Zita sp. z o.o. z siedzibą we Wrocławiu przy ul. Dąbrowskiego 44, 50-457 Wrocław	„Wykonanie prac aranżacyjnych i wykończeniowych w lokalu użytkowym o powierzchni 563,5 m2 zlokalizowanym na parterze w budynku Promenady ZITA – segmenty A i D oraz w lokalu użytkowym najemcy Fortum Power and Heat Polska sp. z o.o. zlokalizowanym na 4 piętrze w budynku Promenady ZITA – segment C we Wrocławiu przy ulicy Słonimskiego 1-1A"	1 065 000,00	17.05.2019-30.08.2019
Samodzielny Publiczny Szpital Wojewódzki im. Jana Bożego w Lublinie z siedzibą: ul. Biernackiego 9, 20-089 Lublin	Roboty budowlane Lublin, ul. Herberta (AOS, POZ, Rehabilitacja), w ramach projektu „Poprawa efektywności działalności wojewódzkich podmiotów leczniczych w obszarach potrzeb zdrowotnych mieszkańców województwa lubelskiego poprzez niezbędne, z punktu widzenia udzielania świadczeń zdrowotnych, prace remontowo - budowlane, w tym w zakresie dostosowania infrastruktury do potrzeb osób starszych i niepełnosprawnych, a także wyposażenia w sprzęt medyczny"	5 595 000,00	24.06.2019-30.06.2020
Nałęczów Zdrój S.A. Drzewce 35, 24-150 Nałęczów	Przebudowa i rozbudowa Rozlewni Wody Mineralnej Piotrowice Małe.	2 875 798,75	05.07.2019-31.12.2019
Gmina Ciężkowice ul. Tysiąclecia 19 33-190 Ciężkowice	„Budowę parku zdrojowego na Rakutowej wraz z uzbrojeniem terenu".	17 391 042,79	18.07.2019-31.01.2021
Uniwersytet Medyczny w Łodzi z siedzibą w Łodzi (90 – 419), Al. Kościuszki 4	"Remont generalny i przebudowa Domu Studenckiego nr III w Łodzi przy ul. Mazowieckiej 12/16"	56 977 691,87	04.11.2019-30.04.2021

2.12. HEBUD

2.12.1. Company Foundation

HEBUD Spółka z ograniczoną odpowiedzialnością (HEBUD) was established by virtue of Resolution of the ERBUD S.A. Management Board No. 24/2017 of 6 November 2017.

Full business name and abbreviation in Russian:

Общество с ограниченной ответственностью "ХЭБУД"

ООО "ХЭБУД"

Full business name and abbreviation in Belarusian:

Таварыства з абмежаванай адказнасцю "ХЭБУД"

ТАА "ХЭБУД"

By virtue of Resolution No. 1 dated 6 November 2017, ERBUD S.A. as the sole shareholder of HEBUD approved the Company's Articles of Association and appointed the Company's Director.

On 28 November 2017 HEBUD was registered by the Ministry of Justice of the Republic of Belarus and launched its activities.

Registered office of HEBUD Spółka z ograniczoną odpowiedzialnością (HEBUD): 230023 Grodno, ul. Budenogo 48, bl.A, p.40 Republika Białoruś.

2.12.2. Scope of activities

HEBUD Sp. z o.o. delivers services, providing support to the member companies of the ERBUD Group, through:

- performing construction and erection works as part of our own resources in Poland
- recruitment and employment of Belarusian workers working in Poland
- cooperation with Belarusian companies in the field of subcontracting
- strengthening of the implementation capacity of subcontracting companies
- training of technical and line personnel in new technologies
- Recruitment of personnel in specialist occupations (e.g. welders, insulation fitter)
- establishing business contacts in the field of export and import of goods and services within the ERBUD Group and beyond.

2.12.3. Company's executive body

By virtue of Resolution No. 7 dated 26 June 2019, Mr Sergei Geniush, son of Anatoli, a citizen of the Republic of Belarus, was appointed the Company's Director, effective from 1 July 2019.

2.12.4. Market situation

The deficit in the labour market in Poland has been deepening for several years. Signals about the scarcity of labour force come from many industries, including the dynamically developing construction sector. As many analyses show, scarcity of labour force can be only to a small extent filled using labour force available in local labour market. Graduates of vocational schools with the required profiles will also be available only in the long run. Forecasts regarding the return of Poles working abroad are also not optimistic, therefore the only solution is to import workers from abroad, not only from the nearest - eastern countries, but also from other parts of the world.

2.12.5. Contracts signed and executed in 2019

Framework Cooperation Agreement signed on 28 December 2017 between ERBUD Operations Sp. z o.o and HEBUD Sp. z o.o. concluded the following orders:

1.Order **No. 1/H/2019** dated 27 February 2019 for the execution of construction works on the site : **"Port Żerań" W 1720 at** ul. Kowalczyka 12, 03-193 Warszawa – estimated contract value equal to PLN 380 000.00,

2. Order **No. 2/H/2019** dated 2 April 2019 for the performance of construction works on the site: **"Renovation of OSIR sports and leisure centre with administrative and social facilities and extension with an indoor swimming pool"** in Tomaszów Lubelski - estimated value of the contract PLN 200 000.00,

3. Order **No. 3/H/2019** dated 27 August 2019 for the performance of the construction works on the site: **"Reconstruction, superstructure and extension of the building of the Subcarpathian Lung Disease Centre in the City of Rzeszów at ul. Rycerska - Phase I"** – estimated contract value of PLN 255,000.00,

4. Order **No. 4/H/2019** dated 29 November 2019 for the performance of general construction works on the site: **"General renovation and redevelopment of Dormitory No. 2 in the City of Łódź at** ul. Mazowiecka 12/16, 92-215 Łódź - estimated value of contract PLN 1 500 000.00.

On 8 December 2019 a framework agreement for construction works was also concluded with a company from the Erbud Group - Erbud International Sp. z o.o.

2.12.6. Activities in 2019

The company generated a slightly lower turnover in 2019 compared to 2018, which was due to a decline in construction service activities in the territory of the Republic of Poland, due to lengthening administrative procedures. In 2019, at the Department of Civil Affairs and Foreigners of the Subcarpathian Provincial Office in the City of Rzeszów, 30 work permits for foreigners in the territory of the Republic of Poland for citizens of the Republic of Belarus were obtained in Q1. The prevailing circumstances limited opportunities for Hebud employees to perform construction work. The company also undertakes activities aimed at import - export of goods and services. Talks are underway concerning trade in building materials, finishing materials, machines and devices and highly specialised medical equipment. The company runs intensive commercial activities aimed at establishing international cooperation with such businessmen as Fibrain in the field of equipment for the construction of optical fibre networks, Mercor in the field of fire protection materials, Trimo with regard to the delivery of modern façade panels. The Company also takes diversified actions to optimize the costs associated with the purchase of construction materials. To this end, in cooperation with a representative of the Belarusian Embassy, the Company established contacts with businessmen based in Belarus: Gomel Engineering Company in the field of mineral wool exports, SETGOU in the field of fire protection materials export to Erbud Group companies. Together with Erbud Operations, the Company is also a member of the Polish-Belarusian Chamber of Commerce and Industry.

2.12.7. Opportunities and threats

The current potential of the Polish construction market is high, therefore in the face of a shortage of construction workers, there is a possibility that HEBUD will be able to make up for the significant staff shortage. However, it should be noted that linguistic and cultural differences and the professional preparation of Belarusian workers can cause many problems. One dangerous trend on the market, unfortunately, is raiding foreigners. They should therefore be provided with working conditions and social assistance to avoid such situations. Therefore, the adopted remuneration principles, together with full social protection for the ERBUD Group personnel, create opportunities for a long-term employment stabilisation in the company. Also the amended Act of 20 April 2004 on employment promotion, regulating access to the Polish labour market for foreigners, tightens the conditions for granting residence and work

permits in the territory of the Republic of Poland, strictly imposes deadlines for informing the authority issuing the work permit about its commencement or termination by a foreigner. It should also be noted that the signalled amendment to the Act on the employment of foreigners, coming into force on 31 July 2020, based on the Directive 2018/957/EU, will put in order the terms and conditions of their employment and facilitate access to the labour market for foreign entities such as HEBUD. In order to operate effectively and expand opportunities for delivery of construction services, also outside Poland, the Company intends to cooperate with Wendler Treml Law Firm in Berlin.

2.12.8. Strategic priorities

The main objective of HEBUD's activities is close cooperation with the ERBUD Group, carried out as part of subcontracting in construction, road and service works, by construction workers of various professions/specialities. In order to meet the expected efficiency gains, a number of measures must be taken to improve cooperation between the entities of the ERBUD Group, namely:

- to create a sufficiently large personnel base in the Republic of Belarus, who have the appropriate qualifications and are willing to go to work in Poland,
- appropriate verification of the skills of employees before they are seconded to work in Poland
- planning of production in advance in terms of arrival and relocation of personnel
- improving organizational and work culture in all units and entities cooperating with HEBUD personnel.

2.13. IVT Weiner + Reimann GmbH

2.13.1. Scope of activities

IVT Weiner + Reimann GmbH with its registered office in Oberhausen operates in the German market, especially in the Ruhr Area. The company is a provider of comprehensive services for the industry. It specializes in engineering and maintenance of industrial facilities (pipelines, pumps, silos, cooling towers), installation, maintenance and repair of power, air conditioning, ventilation and sanitary networks.

The Company also comprises its subsidiary, IVT Menzenbach GmbH, which operates in the area of employee lease. IVT Weiner + Reimann GmbH holds 100% shareholding in IVT Menzenbach GmbH.

IVT is a professionally managed company with tradition more than 35 years long, with experienced and specialized personnel. The company's asset is its high renown and well-established business relationships in the local market.

2.13.2. Company governing bodies

In 2019 the Company's Management Board consisted of:

- Carsten Weiner – a Management Board Member,
- Andreas Schmitz – a Management Board Member.

2.13.3. Executed projects in 2019

The IVT's major customers include: ArcelorMittal, OGM Oberhausener Gebäudemanagement, RAG Aktiengesellschaft, INEOS Solvents, Minegas, Mingas Power, Cargill, Benteler Steel/Tube.

In 2019 the Company completed, *inter alia*, the following projects:

- execution of central heating and sanitary systems in a development project in the town of Duisburg,
- installation of the chiller on the roof of the König Pilsener Arena in Oberhausen,

- the installation of water supply and air conditioning systems in the Oberhausen school complex,
- renovation of the Oberhausen outdoor pool and sauna,
- installation of a garden and a greenhouse on the roof of an office building in Oberhausen.

In 2019, the Company had twelve certificates confirming compliance with standards in the field of, among others, district heating, gas and water, welding of steel structures, production of pressure equipment and pipelines, as well as occupational health and safety.

2.13.4. Expected development

In 2020, IVT will focus on maintaining and further developing the existing business relationships with customers. The priority is also care for a friendly working atmosphere and engagement of personnel, who are the most valuable asset and represent the foundation of the Company's business model. One of the most important tasks for 2020 remains the recruitment of new qualified employees. The Management Board also perceives development opportunities in closer cooperation with sister companies of the ERBUD Group, which could contribute to the company's expansion beyond the Ruhr area and build a larger network of business relationships.

2.14. JV MATOC POLAND Sp. z o.o.

2.14.1. Scope of activities

JV WMER MATOC POLAND Sp. z o.o. with its seat in Warsaw has been operating since 2018. The company's shareholders in the proportions of 50% each are ERBUD S.A. and WOLFF & MÜLLER Government Services GmbH & Co. KG belonging to the WOLFF & MÜLLER Group

The company operates on the Polish market and specializes in comprehensive construction and engineering projects carried out directly for the United States military stationed in Poland under relevant international agreements. The agreements concluded are subject to U.S. law and are characterized by strict requirements in terms of both formal and legal regulations and the selection of project personnel.

JV WMER MATOC POLAND Sp. z o.o. is an entity based on experience in the implementation of projects for the U.S. military in Western Europe and has experienced and specialized staff.

2.14.2. Company governing bodies

In 2018 the Company's Management Board consisted of:

- Andrzej Schmalenberg – a Management Board Member,

Since 1 January 2019 the Company's Management Board has consisted of two persons:

- Juergen Hagner – a Management Board Member,
- Łukasz Świątkowski – a Management Board Member,

2.14.3. Executed projects in 2019

In 2019, the Company implemented, *inter alia*, the following projects (on the "Design and Build" basis):

- Construction of the operating building of the Air Squadron in the locality of Łask. The value of the works is EUR 2.3 million.
- Construction of the Air Squadron operating building in the locality of Powidz. The value of the works is EUR 2.3 million.

- Construction of maintenance infrastructure for military vehicles in the locality of Żagań. The value of the works is EUR 1.6 million.

2.14.4. Expected development

The company JV WMER MATOC POLAND Sp. z o.o. plans to develop its business activity in a stable manner in connection with the planned further development of the US military presence in Poland.

The Company plans to acquire further orders, however, bearing in mind proper risk assessment in view of the characteristics of the projects being carried out.

An important element of the further development of the Company will be the further building of the personnel base taking into account the requirements set by the Employer.

2.15. Development directions of ERBUD Group activities

In short-term, the ERBUD Group will focus on:

- Being ranked in Top 5 companies in the building construction segment in Poland,
- Developing new business segments, in particular those based on new technologies,
- Maintaining financial ratios declared in contracts with financial institutions,
- Generation of satisfactory profitability ratios
- Increasing the scale of operations in the building construction and maintenance segment in the stable Western European markets, such as German and Benelux markets

At the same time, the Group will continue to explore new expansion opportunities, both in geographical and industry-specific terms.

The achievement of the Group's objectives should be supported by the market situation, i.e:

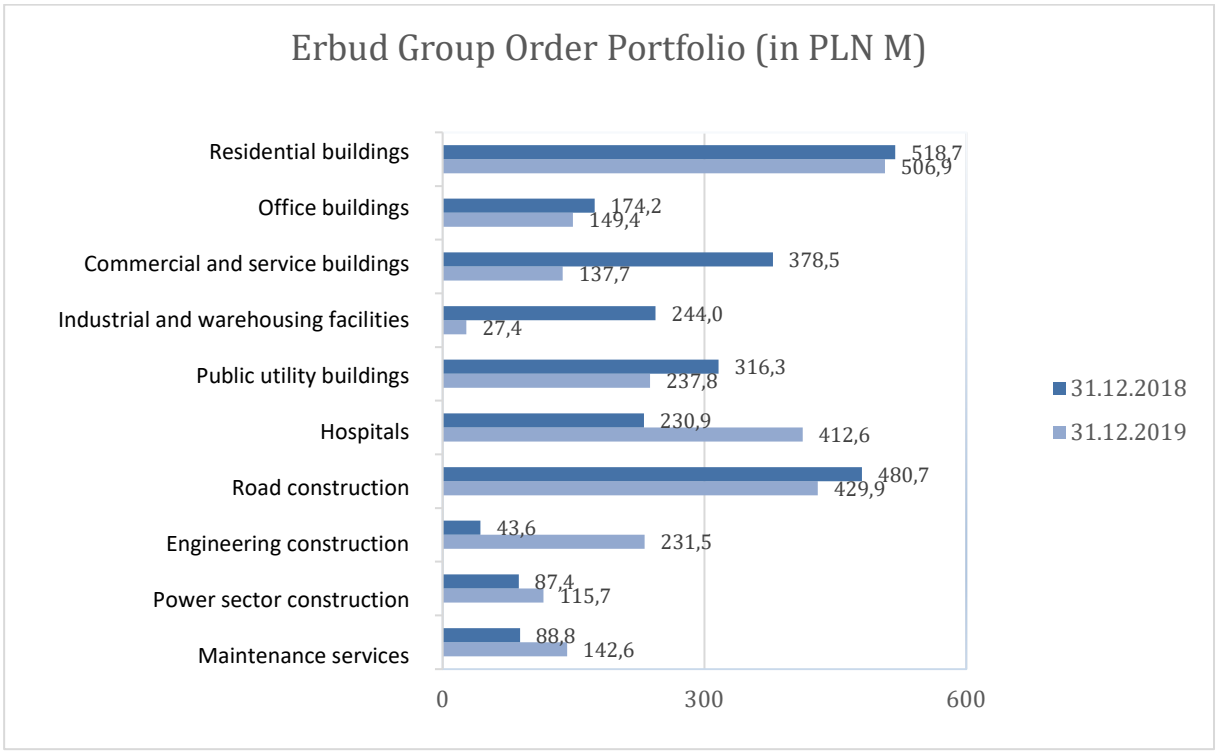
- Standardisation of the cost position in the Polish and German construction markets,
- Good, profitable order book across the Group,
- Return to the execution of wind and photovoltaic farm projects,
- Stable position and long track record in the German, Belgian and Dutch markets.

The ERBUD Group also intends to take an advantage of its strengths, such as:

- Strong ERBUD brand - during over 29 years of its presence in the market, ERBUD has gained the image of a company implementing construction projects with care for investors' satisfaction, in compliance with ethical principles and with respect for the natural environment. The Company also meets set deadlines and works within the adopted budgets. It is also renowned as a reliable payer.
- Diversified nature of Company operations, both in business segment and geographical terms, which at least partly mitigates the adverse impact on the results of the turmoil in individual markets.
- Knowledge of foreign markets - almost from the start of its operation, the ERBUD Group has been operating in the German market, and uses the knowledge gained there to expand effectively in other Western European markets,
- Experienced, professional and committed staff. Constant care for the safety and professional development of our personnel has brought the Group competent, experienced and committed workforce. It is a stable staff - many employees have been tied up with ERBUD since the Company origins. Also foreign companies that are members of the Group have good local staff, including managers.
- Stable financial position - characterized primarily by effective cooperation with financial institutions,
- An experienced, committed team of senior and middle level personnel,

- Development activities and investment into the most committed personnel members - Talent Development Programme.

In 2019 the Group was restored capital, which was depleted due to a 2018 loss. In the second half of the year, when the most important goal was achieved, the Management Board focused on the directions for further development of the Group. The priority has become to get independent from circularity of the EU aid to Poland. The first step in these activities was the acquisition of a German service provider in 2018. The very good effect of this acquisition made the Management Board of the parent company want to further expand the Group's operations in Western European markets. Our intention is to enter into the area of new technologies.



ERBUD GROUP FINANCIAL PERFORMANCE IN 2019

3.1. Key drivers of financial result

In 2019, the ERBUD Capital Group ended up with a net profit on going concern operations equal to PLN 35,044 thousand as opposed to a loss of PLN 21,136 thousand in 2018.

In 2019 major drivers of the Group's financial performance in going concern activities included:

- Positive results in the building construction segment at home and abroad.
- Excellent performance in the road engineering segment (PBDI S.A.) - execution of wind and photovoltaic farm projects.
- Maintaining high margins by IVT GmbH.

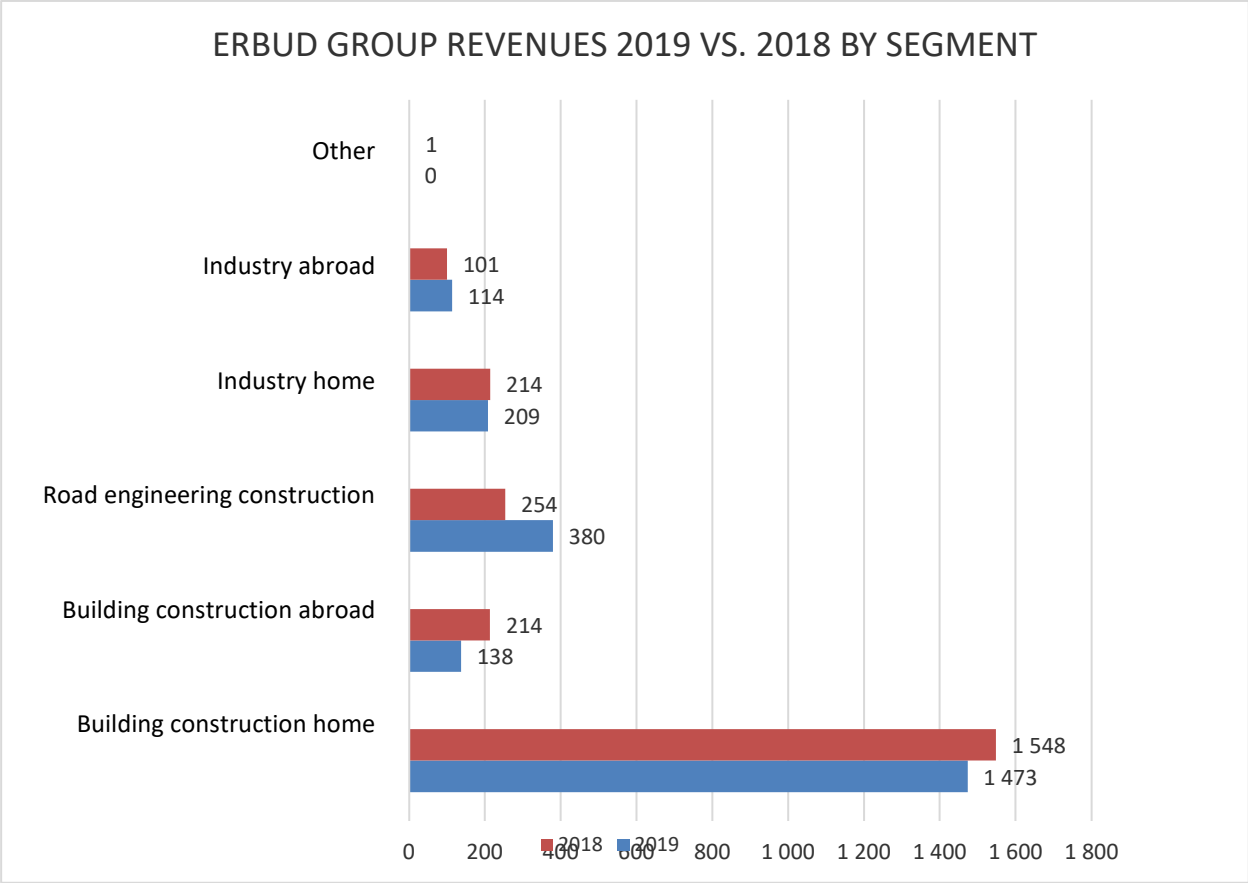
Profit and loss account of the ERBUD Group in analytical terms (in '000 PLN)

	2019	2018	Change in %
Revenues from sales of products, goods and services from continuing operations	2 313 363	2 331 896	(0.79)
Operating expenses*	2 264 902	2 340 366	3.00
Other operating profit/loss	11 967	(2 259)	816
Impairment of financial assets and contract valuation assets	(2 203)	(6 549)	66
Share in net profits/losses of equity-accounted subsidiaries	175	(31)	665
Operating profit/loss	58 400	(17 309)	437
Financial activity gains/losses	(9 514)	(4 308)	121
Gross profit /(loss) from continuing operations	48 886	(21 617)	326
Income tax	13 842	(481)	2 978
Net profit /(loss) of the continuing business	35 044	(21 136)	266
Net profit /(loss) of the discontinuing business	0	0	0
Net profit (loss) in accounting year, of which	35 044	(21 136)	266
- appropriated to the shareholders of Parent Company	*33 634*	*(20 378)*	265

**Cost of goods sold (COGS), cost of selling, general and administrative expense (SG&A)*

3.2. Sales revenues

In 2019, the Group generated sales revenues from continuing operations at the level of PLN 2,313,363 thousand, i.e. down by 0.79% compared to the previous year (PLN 2,331,896 thousand). Revenues in road engineering construction went up (49.4%). Sales in the building construction segment declined abroad (-20%) and at home (-4.81%)



The Group carries out orders at home and abroad (mainly in Germany and Belgium). In 2019, foreign operations accounted for 11% of the Group's sales revenues (13.50% of the previous year's revenues).

3.3. Costs

The main cost item of the ERBUD Group (65.24% of total costs by type) were the costs of third party services, mainly the costs of work subcontracted to subcontractors. This value was up compared to 2018, where the costs of third party services accounted for 64.50%. In 2019, they totalled PLN 1,559 million, i.e. up by 1.3% compared to the previous year.

Moreover, a significant share in the Group's cost structure was held by:

- Expenditure on materials and energy - they totalled PLN 458 million (19.16% of the value of costs by type). These costs were up by 4.5% compared to 2018.
- Costs of employee benefits - they totalled PLN 311 million (down by 1.33% compared to the previous year).

Operating costs of ERBUD Group ('000 PLN)

	2019	2018	Change in %
Third party services	1 559 223.00	1 541 756.00	1.13%
Material and energy consumption	457 908.00	438 178.00	4.50%
Employee benefit expenses	310 745.00	314 918.00	(1.33%)
Amortization and depreciation	21 295.00	14 985.00	42.11%
Taxes and charges	9 636.00	9 440.00	2.08%
Other cost categories	23 008.00	21 427.00	7.38%
Value of materials sold	7 995.00	1 964.00	307.08%
Total costs by category	**2 389 810.00**	**2 342 668.00**	**2.01%**
Change in the balance of products, work in progress and accrued expenses under building contracts	(124 908.00)	(2 302.00)	5 326.06%
Cost of sales (negative value)	(6 003.00)	(5 354.00)	12.12%
General management and administration costs (negative value)	(92 235.00)	(92 258.00)	(0.02%)
Manufacturing costs of products sold	**2 166 664.00**	**2 242 754.00**	**(3.39%)**

3.4. Other operating income and expenses

In 2019, the Group's other operating result was PLN 11 967 thousand, compared to PLN 2 259 thousand in the previous year. In 2019, the level of result on other operating activities was mainly influenced by: revenues from the increase in the price of sold shares of Budlex S.A. in the amount of PLN 4,700 thousand.

3.5. Financial activity gains/losses

The result on the Group's financial activities was negative and amounted to PLN (9 514) thousand compared to PLN (4 308) thousand in 2018. The level of financial costs in 2019 was PLN 12 080 thousand, of which the largest item was interest on credits and loans, bonds and other - PLN 8 922 thousand. In 2018, financial expenses were down by 11.29% and totalled PLN 10,855 thousand. A significant difference occurred in financial income - PLN 2 566 thousand vs. PLN 6 547 thousand, down by 60.80%. This is mainly due to a decline in foreign exchange gains (96.58%) and a decline in interest income (31.44%)

3.6. Statement of Financial Position

On 31 December 2019, the total assets of the ERBUD Capital Group amounted to PLN 1,173,495 thousand compared to PLN 1,098,400 thousand at the end of 2018 (up by 6.84%). Fixed assets were up by 20.3% and reached PLN 189,734 thousand, whereas current assets were up by 4.57% and reached PLN 983,761 thousand.

Major items of the Group assets were as follows:

- Short-term trade receivables and other receivables They totalled PLN 522 786 thousand, or they accounted for 44.00% of the total assets. Their value was up by 6.69% compared to the end of 2018 (PLN 517 022 thousand).
- Receivables from the measurement of building contracts in the amount of PLN 202 460 thousand (17.33% of the balance sheet total) against PLN 176,425 thousand (16.06% of the balance sheet total) in 2018.
- Cash or cash equivalents totalled PLN 161 158 thousand. 13.80 % of the total assets vs. PLN 213 857 thousand, or 20,17% of total assets (down by 24.64% compared to the balance at the end of 2017).

As of 31 December 2019, equity totalled PLN 274,816 thousand (23.41% of total liabilities) compared to PLN 240,911 thousand at the end of 2018. The increase in equity fuelled mainly by the equity generated in 2019.

In addition, the following items accounted for a significant share in the Group's balance sheet total:

- Short-term trade liabilities and other liabilities (including advances received and retained deposits) in the amount of PLN 416,342 thousand (35.48% of total liabilities). They were 23.12% down compared to the previous year (PLN 541,571 thousand).
- Liabilities related to the measurement of building contracts in the amount of PLN 156,021 thousand (13.29% of the balance sheet total) against PLN 116,413 thousand (10.60% of the balance sheet total) in 2018.

3.7. Cash flows

During 2019 the ERBUD Group recorded negative cash flows of PLN 58,367 thousand compared to the positive cash flows of PLN 16,439 thousand in the previous year. In particular they consisted of:

- Negative change in working capital equal to PLN 175 776 thousand;
- Proceeds from debt taken out (credits and loans) in the amount of PLN 62 095 thousand.

As of 31 December 2019 the Group held cash and cash equivalents in the amount of PLN 161 158 thousand compared to PLN 213 857 thousand as of 31 December 2018.

3.8. Changes in equity

On 31 December 2019, the equity totalled PLN 274,816 thousand compared to PLN 240,911 thousand at the end of 2018. Changes in the equity in value terms were mainly driven by the generated net profit of PLN 35,044 thousand.

3.9. Financial ratios

In 2019, all profitability ratios at individual levels of sales profits were positive.

Key financial ratios of the ERBUD Group for continuing operations

	2019	2018
EBIT margin (in %)	2.52	(0.74)
EBITDA margin (in %)	3.44	(0.10)
Sales profitability (in %)	6.34	3.82
Gross profitability (in %)	2.11	(0.93)
Net profitability (in %)	1.51	(0.91)

EBIT margin - operating profit / sales revenue
EBITDA margin – EBITDA = Operating profit + Amortization / Sales net revenue
Sales profitability – Profit on sales / Sales revenue
Gross profitability – Earnings before tax/ Sales revenue
Net profitability – Net earnings /sales revenue

The level of liquidity ratios shows that at the end of 2019, the Group had no problems with timely payment of liabilities.

ERBUD Group's key liquidity and debt ratios

	2019	2018
Current ratio	2.36	1.26
Quick ratio	2.15	1.24
Debt ratio (in %)	76.5%	78%
Debt-to-equity ratio	325.04%	355.94%

Current ratio - current assets / current liabilities
Quick ratio - current assets - inventories / current liabilities
Debt ratio = Liabilities and provisions for liabilities / Total assets
Debt-to-Equity ratio = Liabilities and provisions for liabilities / Equity

3.10. Interest debt

As the end of December 2019, the ERBUD Group's total debt related to loans, borrowings and bonds and financial leases totalled PLN 232,447 thousand, including PLN 131,661 thousand of short-term debt. 22 400 thousand of interest debt stems from changes in the rules related to IFRS 16.

As the end of December 2018, the ERBUD Group's total debt related to loans, borrowings and bonds and financial leases totalled PLN 128,155 thousand, including PLN 45,976 thousand of short-term debt.

ERBUD Group member companies have access to multi-purpose credit lines at several banks.

The following loan agreements were signed between the onset of 2019 and the date of this report:

- **On 16 January 2019** Annex No. 20 was signed by ING Bank Śląski S.A. based in Katowice to the Multi-Purpose Agreement of 6 July 2010. Under these Annexes, ERBUD S.A. and its subsidiaries: PBDI S.A. and Erbud Industry Centrum Sp. z o.o. may use the multi-purpose line up to a total of PLN 142 million, and may incur debt under this line up to PLN 34 million.

- **On 28 January 2019** Annex No. 16 signed with mBank S.A. based in Warsaw to the loan agreement of 2 June 2009 and Annex No. 12 to the framework agreement of 2 February 2010, and Annex No. 9 to the Overdraft Facility Agreement of 22 February 2011. Under these annexes the Issuer may use the multi-purpose line up to a total of PLN 90 million, and the Issuer may incur debt under this line up to PLN 10 million.
  The above-mentioned Multi-purpose Agreement is secured with an assignment of receivables under construction contracts, power of attorney to the bank account with mBank S.A., statement of submission to enforcement pursuant to Art. 777 § 1 item 1 subpar. 5 and a security deposit in the case of a guarantee order with a term longer than 24 months.

- **On 30 January 2019** Annex No. 20 signed with BGŻ BNP Paribas S.A. based in Warsaw to the Multi-purpose Agreement of 7 July 2005. Under this Annex, the Issuer and its subsidiary PBDI S.A. may use the multi-purpose line up to the total amount of PLN 97 million and may incur debt under this line up to PLN 8 million.

- **On 26 September 2019**. Annex No. 11 signed by Alior Bank S.A. with its registered office in Warsaw 7 to the Loan Agreement No. U0002139462604 Debt limit of 27 September 2012. Under this Annex, ERBUD S.A. may use an overdraft facility of up to PLN 10 million and guarantee products of up to PLN 80 million. The above-mentioned banking product was made available until 30 September 2020.

- **On 14 October 2019**. Annex No. 9 signed with Credit Agricole Bank Polska S.A. with its registered office in Warsaw to the Credit Line Agreement No. KKW/NS/15/2015 of 18 September 2015. Pursuant to this Annex, ERBUD S.A. and its subsidiaries (i.e. Erbud Industry Sp. z o.o.; Erbud Industry Centrum Sp. z o.o., Erbud Industry Pomorze Sp. z o.o. ; Erbud Industry Południe Sp. z o.o.) may use a multi-purpose line (overdraft and guarantee line) for the total amount up to PLN 30 million. The sublimit for subsidiaries is respectively: . Erbud Industry Sp. z o.o – PLN 5 million.; Erbud Industry Centrum Sp. z o.o. – PLN 2 million, Erbud Industry Pomorze Sp. z o.o. – PLN 4.5 million; Erbud Industry Południe Sp. z o.o – PLN 5 million. The maximum total value of the loan may not exceed PLN 16.5 million. However, the maximum amount of the sub-limit for guarantee products may not exceed PLN 30 million. ERBUD S.A. may use up to the full limit amount, i.e. PLN 30 million. Whereas subsidiaries may place orders for guarantees up to the maximum amounts: Erbud Industry Sp. z o.o – PLN 10 million.; Erbud Industry Centrum Sp. z o.o. – PLN 7.5 million, Erbud Industry Pomorze Sp. z o.o. – PLN 2.5 million; Erbud Industry Południe Sp. z o.o – PLN 5 million. The above-mentioned banking product was made available until 30 September 2020.

  On 31 October 2019 . Annex No. 4 signed with Santander Bank Polska S.A. with its registered office in Warsaw to Multiline Agreement No. K01393/15 of 20 November 2015. Under this Annex, ERBUD S.A. may use the multi-purpose line (overdraft and guarantee line) up to PLN 50 million. The sublimit for an overdraft facility is PLN 5 million, and for guarantee products PLN 45 million. The above-mentioned banking product was made available until 31 October 2020.

- **On 14 November 2019**. Annex 7 signed with HSBC France (Joint Stock Company) Branch in Poland with its registered office in Warsaw 7 to the Guarantee Line Agreement No. 67/2014 of 29 December 2014. Under this Annex, ERBUD S.A. may use the guarantee line up to PLN 70 million. The above-mentioned banking product was made available until 30 September 2020.

- **On 29 January 2020** Annex No. 22 was signed by ING Bank Śląski S.A. based in Katowice to the Multi-Purpose Agreement of 6 July 2010. Under these Annexes, ERBUD S.A. and its subsidiaries: PBDI S.A. and Erbud Industry Centrum Sp. z o.o. may use the multi-purpose line up to a total of PLN 142 million, and may incur debt under this line up to PLN 50 million. ERBUD S.A. and its subsidiaries may use the lines within the sublimits specified: ERBUD S.A. - PLN 142 million, including an option of incurring debt up to PLN 50 million. The sublimit for PBDI S.A. is PLN 28 million with an option of incurring debt up to PLN 5 million; the sublimit for Erbud Industry Centrum Sp. z o.o. is PLN 10 million with an option of incurring debt up to PLN 4 million. The above-mentioned banking product was made available until 31 January 2020.

- **On 31 January 2020** Annex No. 18 signed with mBank S.A. based in Warsaw to the Loan agreement of 2 June 2009 and Annex No. 14 to the Framework Agreement of 2 February 2010, and the Umbrella Facility Overdraft Agreement. Under these Annexes and the Agreement, ERBUD S.A. and its subsidiary PBDI S.A. may use guarantee and credit products up to the total amount of PLN 105 million under the sublimits specified below: ERBUD S.A. - PLN 105 million including an option of incurring debt up to PLN 115 million; the sublimit for PBDI S.A. is PLN 10 million with an option of incurring debt up to PLN 5 million. The above-mentioned banking product was made available until 29 January 2020.

- **On 10 March 2020** Annex No. 21 signed with BNP Paribas SA. based in Warsaw to the Multi-Purpose Agreement of 7 July 2005. Under this Annex, ERBUD S.A. and its subsidiary PBDI S.A. may use the multi-purpose line up to the total amount of PLN 102 million and may incur debt under this line up to PLN 8 million. ERBUD S.A. may use the line up to a maximum amount of PLN 102 million, including incurring debt up to PLN 3 million, while PBDI S.A. may use the line up to PLN 18 million, including incurring debt up to PLN 5 million. The above-mentioned banking product was made available until 30 April 2021.

Securities and collaterals for the repayment of the above-mentioned banking products are as follows:

- contractual and capped mortgages on the Group's assets,
- assignments of rights under building contracts,
- clauses with entitlement to deduct receivables from bank accounts
- blank promissory notes,
- transfer of ownership title to cash deposits representing the contractual percentage of secured receivables.
- a declaration of submission oneself to enforcement pursuant to Article 777 § 1, subpar. 5 of the Commercial Companies' Code.

Loan agreements signed by ERBUD Group member companies (as of the Report Date)

Bank	Type of liability	Amount ('000 PLN)	Currency	Interest terms	Repayment date	Payment of instalments	Borrower
BNP Paribas Bank Polska S.A.	Overdraft facility	8 000	PLN	WIBOR 3M + 1.5%	30 Apr. 2021	one-off	ERBUD S.A.; PBDI S.A. - 5 000
mBank S.A.	Overdraft facility	15 000	PLN	WIBOR 1M + 1.6%	29 Jan. 2021	one-off	ERBUD S.A.; PBDI S.A. – 5 000,
PKO Bank Polski S.A.	Overdraft facility	20 000	PLN	WIBOR 3M 1.7%	30 Jun. 2020	one-off	ERBUD S.A.
Alior Bank S.A.	Overdraft facility	10 000	PLN	WIBOR 3M+1.6%	30 Sept. 2020	one-off	ERBUD S.A.
ING Bank Śląski S.A.	Overdraft facility	50 000	PLN	WIBOR 1M +1.65%	31 Jan. 2021	one-off	ERBUD S.A.; PBDI S.A.; ERBUD Industry Centrum
Santander Bank Polska SA	Overdraft facility	5 000	PLN	WIBOR 1M +1.7%	31 Oct. 2020	one-off	ERBUD S.A.
BNP Paribas Bank Polska S.A.	Overdraft facility	2 000	PLN	WIBOR 1M + 1.5%	30 Apr. 2021	one-off	ERBUD Industry Sp. z o.o.
BNP Paribas Bank Polska S.A.	project finance facility	20 000	PLN	WIBOR 1M + 1.5%	30 Apr. 2021	one-off	ERBUD Industry Sp. z o.o.
Credit Agricole Bank Polska SA	working capital facility	4 000	PLN	WIBOR O/N+1.30%	30 Sept. 2020	one-off	Erbud Industry Centrum Sp. z o.o.
Credit Agricole Bank Polska SA	working capital facility	2 000	PLN	WIBOR O/N+1.30%	30 Sept. 2020	one-off	Erbud Industry Centrum Sp. z o.o.
Credit Agricole Bank Polska SA	working capital facility	5 000	PLN	WIBOR O/N+1.30%	30 Sept. 2020	one-off	ERBUD Industry Południe Sp. z o.o.

Credit Agricole Bank Polska SA	working capital facility	4 500	PLN	WIBOR O/N+1.3%	30 Sept. 2020	one-off	ERBUD Industry Pomorze Sp. z o.o.
BNP Paribas Bank Polska S.A.	Overdraft facility	2 000	PLN	WIBOR 1M + 1.8%	30 Apr. 2021	one-off	ERBUD Industry Pomorze Sp. z o.o.
mBank S.A.	Overdraft facility	200	PLN	WIBOR O/N1.9%	31 Jan. 2021	one-off	ERBUD Operations Sp. z o. o.
mBank S.A.	Overdraft facility	3 000	PLN	WIBOR 1M + 1.45%	29 Sept. 2020	one-off	ERBUD Operations Sp. z o. o.
ING Bank Śląski S.A.	Investment loan	4 683	PLN	WIBOR 1M + 2.15%	30 Nov. 2025	On instalment basis	PBDI S.A.
CommerzBank AG	Overdraft facilities	2 000	EUR	EURIBOR 3M+ 0.25%	31 May 2020	one-off	GWI GmbH
PKO BP S.A. German Branch	Overdraft facilities	1 325	EUR	EURIBOR 1M+2.1%	30 Jun. 2020	one-off	GWI GmbH
Deutche Bank AG	Overdraft facilities	1 000	EUR	2.25%	30 Apr. 2020	one-off	GWI GmbH
Deutsche Apotheker- und Ärztebank eG	Overdraft facilities	20 000	EUR	3M EURIBOR+2.2%	30 Sept. 2020	one-off	PflegeQuatier Düren GmbH (51% subsidiary of GWI GmbH)
HSBC France (Joint Stock Company) Branch in Poland	Non-revolving loan	2 275	EUR	EURIBOR 3M+ 2.2%	24 Feb. 2023	instalments	Erbud Beteiligungs GmbH
Commerzbank	Overdraft facilities	1 500	EUR	EURIBOR + 1.5%-2.0%	valid indefinitely	one-off	IVT Weiner + Reimann GmbH
National Bank AG	Overdraft facilities	1 000	EUR	EURIBOR + 1.5%-2.0%	valid indefinitely	one-off	IVT Weiner + Reimann GmbH
Santander Bank AG	Overdraft facilities	1 000	EUR	EURIBOR + 1.5%-2.0%	Valid indefinitely	one-off	IVT Weiner + Reimann GmbH

Commerzbank	Investment loan	51	EUR	2.50%	31 Dec. 2020	instalments	IVT Weiner + Reimann GmbH
National Bank AG	Investment loan	318	EUR	1.50%	31 May 2027	instalments	IVT Weiner + Reimann GmbH
National Bank AG	Investment loan	100	EUR	EURIBOR + 1.25%	30 Apr. 2022	instalments	IVT Weiner + Reimann GmbH
Ford Bank AG	Car loan	178	EUR	0.00%-3.92%	31 Jul. 2022	instalments	IVT Weiner + Reimann GmbH
Santander Bank AG	Car loan	231	EUR	0.00%-3.92%	31 Jul. 2022	instalments	IVT Weiner + Reimann GmbH
	Total:	**155 383**	**PLN**				
	Total:	**32 978**	**EUR**				

Loans extended in the Issuer Group (as of Report Date)

Lender	Borrower	Loan date	Value in '000 PLN)	Value in '000 EUR	Maturity date	Interest rate
Erbud S.A.	Erbud Holding Deutschland GmbH	15 May 2018	87	20	31 Dec. 2020	EURIBOR 3M+2.2%
Erbud S.A.	Erbud Beteiligungs GmbH	27 March 2018	26	6	31 Dec. 2020	EURIBOR 3M+2.2%
Erbud S.A.	JV WMER MATOC POLAND	9 May 2018	25		31 Dec. 2021	EURIBOR 3M+2.2%
Erbud S.A.	Erbud Industry Sp. z o.o.	27 Mar. 2019	5 000		31 Dec. 2021	WIBOR 3M+1.5%
Erbud S.A.	JV WMER MATOC POLAND	5 Jun. 2019	30		31 Dec. 2021	WIBOR 3M+2.2%
Erbud Beteiligungs GmbH	Erbud Holding Deutschland GmbH	27 May 2019	87	20	31 Jan. 2021	EURIBOR 3M+2.2%
Erbud S.A.	JV WMER MATOC POLAND	1 Oct. 2019	80		31 Jan. 2021	WIBOR 3M+3.5%
Erbud S.A.	JV WMER MATOC POLAND	21 Oct. 2019	40		31 Jan. 2021	WIBOR 3M+3.5%
IVT Weiner + Reimann GmbH	Erbud Beteiligungs GmbH	25 Sept. 2019	875	200	30 Jun. 2020	EURIBOR 3M+0.5%
IVT Weiner + Reimann GmbH	Erbud Beteiligungs GmbH	29 Oct. 2019	1 312	300	30 Jun. 2020	EURIBOR 3M+0.5%
IVT Weiner + Reimann GmbH	Erbud Beteiligungs GmbH	27 Nov. 2019	1 312	300	30 Jun. 2020	EURIBOR 3M+0.5%

IVT Weiner + Reimann GmbH	Erbud Beteiligungs GmbH	12 Dec. 2019	875	200	30 Jun. 2020	EURIBOR 3M+0.5%
Erbud S.A.	JV WMER MATOC POLAND	14 Nov. 2019	200		31 Jan. 2021	WIBOR 3M+3.5%
Erbud S.A.	JV WMER MATOC POLAND	28 Nov. 2019	400		31 Jan. 2021	WIBOR 3M+3.5%
Erbud S.A.	JV WMER MATOC POLAND	13 Dec. 2019.	400		31 Jan. 2021	WIBOR 3M+3.5%
PBDI S.A.	ERBUD S.A.	18 Feb. 2020	15 000		31 Jan. 2021	WIBOR 6M+3.5%
Erbud S.A.	Erbud Industry Sp. z o.o.	1 Feb. 2013	150		31 Dec. 2021	WIBOR 1M +2.5%
Erbud S.A.	Erbud Industry Sp. z o.o.	30 Jun. 2014	400		31 Dec. 2021	WIBOR 1M +2.5%
Erbud S.A.	Erbud Industry Sp. z o.o.	23 Oct. 2014	125		31 Dec. 2021	WIBOR 1M +2.5%
GWI GmbH	Pflege Quatier Düeren GmbH	15 Jan. 2018	6 123	1 400	31 May 2020	fixed interest rate 10%
GWI GmbH	Pflege Quatier Düeren GmbH	13 Apr. 2018	4 374	1 000	31 May 2020	fixed interest rate 10%
Erbud S.A.	Erbud International Sp. z o.o.	21 Jun. 2016	700		31 Dec. 2020	EURIBOR1M+1.5%
Erbud S.A.	Erbud International Sp. z o.o.	29 Jul. 2016	800		31 Dec. 2020	EURIBOR1M+1.5%
Erbud S.A.	Erbud International Sp. z o.o.	7 May 2017	1000		31 Dec. 2020	EURIBOR1M+1.5%
Erbud S.A.	Erbud International Sp. z o.o.	14 Sept. 2017	850		31 Dec. 2020	EURIBOR1M+1.5%
			40 271	**3 446**		

3.11. Contingent receivables and liabilities

Contingent liabilities on account of guarantees and sureties granted are both sureties issued by companies of the ERBUD Group and by banks to contractors of the ERBUD Group to secure their claims against the Group under building contracts. The banks are entitled to a refund to the ERBUD Group to this extent.

Sureties granted by the ERBUD GROUP - as of 31 Dec. 2019

Guarantor	Surety holder	Value ('000 PLN)	Subject	For whom	Surety expiry date	Type of surety and financial terms
ERBUD S.A.	GWI GmbH (subsidiary)	8 517	Overdraft facility	Commerz-Bank	31 May 2020	Guarantee extended by mBank S.A. on behalf of ERBUD S.A. The Guarantor charges the Company with fees charged by the Guarantor
ERBUD S.A.	GWI GmbH (subsidiary)	6 771	overdraft facility – EUR 1 590	PKO BP S.A.	31 Dec. 2023	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety per year
ERBUD S.A.	GWI GmbH (subsidiary)	5 877	Line for financial guarantees of EUR 1 380	PKO BP S.A. (German Branch)	31 Dec. 2030	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety
ERBUD S.A.	GWI GmbH (subsidiary)	4 259	insurance guarantee lines of EUR 1 million	Euler Hermes, Zürich, AXA, Bayerische Versicherung sverband, R+V ; Swiss RE	31 Dec. 2020	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety
ERBUD S.A.	GWI GmbH (subsidiary)	4 259	Overdraft facility of EUR 1 million	Deutche Bank AG	30 Apr. 2020	Guarantee extended by mBank S.A. on behalf of ERBUD S.A. The Guarantor charges the Company with fees charged by the Guarantor
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	22 000	multi-purpose credit line	BNP Paribas Bank Polska S.A.	17 Sept. 2027	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.	ERBUD Industry Centrum Sp. z o.o. (subsidiary of ERBUD Industry Sp. z o.o.)	2 815	investment loan (PLN 6,200,000 - refinancing of the loan taken out for the acquisition of shares in Engorem Sp. z o.o.; PLN 2 952 000 - purchase of branches from PxM and PLN 848,000 for capital injection into these branches)	Credit Agricole	28 Aug. 2023	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.; IVT Menzenbach GmbH; IVT Weiner&Reiman GmbH – Joint and several surety	Erbud Beteiligungs GmbH	15 233	Non-renewable loan for the acquisition of shares in IVT Weiner+Reimann GmbH (EUR 3,577 thousand)	HSBC	24 Mar. 2023	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.	PBDI S.A.	6 720	Investment loan	ING Bank Śląski S.A.	30 Nov. 2028	Civil surety, The Guarantor charges a surety fee of 1% of the value

Total:		**76 449**				

Sureties granted by the ERBUD GROUP - as of 31 Dec. 2018

Guarantor	Surety holder	Value ('000 PLN)	Subject	For whom	Surety expiry date	Type of surety and financial terms
ERBUD S.A.	GWI GmbH (subsidiary)	12 900	overdraft facility EUR 2 000 000 and guarantee line EUR 1 000 000	KBC	30 Apr. 2019	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety per year
ERBUD S.A.	GWI GmbH (subsidiary)	8 600	Overdraft facility	Commerz-Bank	1 Jul. 2019	Guarantee extended by BRE S.A. on behalf of ERBUD S.A. The Guarantor charges the Company with fees charged by the Guarantor
ERBUD S.A.	GWI GmbH (subsidiary)	10 320	Overdraft facility	PKO BP S.A.	30 Sept. 2021	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety per year
ERBUD S.A.	GWI GmbH (subsidiary)	5 934	Overdraft facility	PKO BP S.A. (German Branch)	30 Sept. 2029	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety
ERBUD S.A.	GWI GmbH (subsidiary)	4 300	guarantee insurance lines	Euler Hermes, Zürich, AXA, Bayerische Versicherung sverband, R+V ; Swiss RE	31 Dec. 2020	Civil surety, the Guarantor charges a surety fee of 1% of the value of the surety
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	1.720	Investment loan	BGŻ BNP Paribas S.A.	17 Sept. 2022	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	1 750	Investment loan	BGŻ BNP Paribas S.A.	30 Apr. 2023.	Civil surety, The Guarantor charges a surety fee of 1% of the value

ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	22 000	multi-purpose credit line	BGŻ BNP Paribas S.A.	17 Sept. 2027	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.	ERBUD Industry Centrum Sp. z o.o. (subsidiary of ERBUD Industry Sp. z o.o.)	5 161	investment loan (PLN 6,200,000 - refinancing of the loan taken out for the acquisition of shares in Engorem Sp. z o.o.; PLN 2 952 000 - purchase of branches from PxM and PLN 848,000 for capital injection into these branches)	Credit Agricole	28 Aug. 2023	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.	Erbud Beteiligungs GmbH	15 381	Non-revolving loan for the acquisition of shares in IVT Weiner+Reimann GmbH	HSBC	24 Mar. 2023	Civil surety, The Guarantor charges a surety fee of 1% of the value
ERBUD S.A.	PBDI S.A.	6 720	Investment loan	ING Bank Śląski S.A.	30 Nov. 2028	Civil surety, The Guarantor charges a surety fee of 1% of the value
PBDI S.A., Erbud International Sp. z o.o.	ERBUD S.A. – Parent Company	50 000	multi-purpose credit-guarantee line (LKW)	PKO Bank Polski S.A.	30 Sept. 2027	Civil suretyship Guarantor fee accounting for 1% of the value

Erbud Industry Sp. z o.o. – subsidiary of ERBUD S.A.	Erbud Industry Pomorze Sp. z o.o. – subsidiary of Erbud Industry Sp. z o.o.	2 000	Overdraft facility	BGŻ BNP Paribas S.A.	16 Jan. 2028	Civil suretyship Guarantor fee accounting for 1% of the value
IVT Menzenbach GmbH	Erbud Beteiligungs GmbH	15 381	Non-revolving loan for the acquisition of shares in IVT Weiner+Reimann GmbH	HSBC	24 Mar. 2023	Civil surety, the Guarantor charges a surety fee of 1% of the value
IVT Weiner&Reimann GmbH	Erbud Beteiligungs GmbH	15 381	Non-revolving loan for the acquisition of shares in IVT Weiner+Reimann GmbH	HSBC	24 Mar. 2023	Civil surety, the Guarantor charges a surety fee of 1% of the value
Total:		**177 548**				

Surety extended to ERBUD S.A. – as of 31 Dec. 2019 and as of Report Date

Guarantor	Surety holder	Value ('000 PLN)	Subject	For whom	Surety expiry date	Type of surety and financial terms
PBDI S.A. (subsidiary of ERBUD S.A.)	ERBUD S.A.	50 000	multi-purpose credit–guarantee line (LKW)	PKO BP S.A.	30 Jun. 2020	Civil surety, the Guarantor charges a surety fee of 1% of the value
Erbud International Sp. z o.o. (subsidiary of ERBUD S.A.)	ERBUD S.A.	50 000	multi-purpose credit–guarantee line (LKW)	PKO BP S.A.	30 Jun. 2020	Civil surety, the Guarantor charges a surety fee of 1% of the value

Bank guarantee limits made available to the Group - as of the Report Date.

Guarantor	Type of liability	Limit amount '000	Currency	Obligor
Alior Bank S.A.	Bid bonds, performance bond, retention bond, advance payment, re-guarantees	90 000	PLN	ERBUD S.A.
Alior Bank S.A.	Bid bonds, performance bond, retention bond, advance payment, re-guarantees	2 000	EUR	ERBUD S.A.
BNP Paribas Bank Polska S.A.	Bid bonds, performance bond, retention bond, advance payment, re-guarantees	99 000	PLN	ERBUD S.A.; PBDI S.A. (18,000).
mBank S.A.	Bid bonds, performance bond, retention bond	90 000	PLN	ERBUD S.A. (PBDI S.A. – 10 000)
PKO Bank Polski S.A.	Bid bonds, performance bond, retention bond	30 000	PLN	ERBUD S.A.
Santander Bank Polska SA	Bid bonds, performance bond, retention bond	45 000	PLN	ERBUD S.A.
HSBC Bank Polska SA	Bid bonds, performance bond, retention bond	70 000	PLN	ERBUD S.A.
Credit Agricole Bank Polska SA	Bid bonds, performance bond, retention bond	30 000	PLN	ERBUD S.A. (30 000), ERBUD Industry Centrum Sp. z o.o. (7 500), ERBUD Industry Sp. z o.o. (10 000), ERBUD Industry Południe (5 000) i ERBUD Industry Pomorze Sp. z o.o (2 500)
ING Bank Śląski S.A.	Bid bonds, performance bond, retention bond	92 000	PLN	ERBUD S.A. (92 000). PBDI S.A. (23 000) and ERBUD Industry Centrum Sp. z o.o. (6,000).
mBank S.A.	Bid bonds, performance bond, retention bond	927	PLN	PBDI S.A.
mBank S.A.	Bid bonds, performance bond, retention bond	1 500	PLN	Erbud Operations Sp. z o.o.
PKO Bank Polski S.A.	Bid bonds, performance bond, retention bond	1 150.	EUR	GWI GmbH
Total:		**548 427**	**PLN**	
Total:		**3 150**	**EUR**	

Bank guarantee limits made available to the Group - as of the Q3 2019 Report Date.

Guarantor	Type of liability	Limit amount '000	Currency	Obligor
Alior Bank S.A.	Bid bonds, performance bond, retention bond, advance payment, re-guarantees	90 000	PLN	ERBUD S.A.
Alior Bank S.A.	Bid bonds, performance bond, retention bond, advance payment, re-guarantees	2 000	EUR	ERBUD S.A.
BNP Paribas Bank Polska S.A.	Bid bonds, performance bond, retention bond, advance payment, re-guarantees	94 000	PLN	ERBUD S.A.; PBDI S.A. (13,000)
mBank S.A.	Bid bonds, performance bond, retention bond	85 000	PLN	ERBUD S.A.
PKO Bank Polski S.A.	Bid bonds, performance bond, retention bond	30 000	PLN	ERBUD S.A.
Santander Bank Polska SA	Bid bonds, performance bond, retention bond	45 000	PLN	ERBUD S.A.
HSBC Bank Polska SA	Bid bonds, performance bond, retention bond	70 000	PLN	ERBUD S.A.
Credit Agricole Bank Polska SA	Bid bonds, performance bond, retention bond	30 000	PLN	ERBUD S.A. (30 000), ERBUD Industry Centrum Sp. z o.o. (5 000), ERBUD Industry Sp. z o.o. (5 000), ERBUD Industry Południe (5 000) i ERBUD Industry Pomorze Sp. z o.o (2 500)
ING Bank Śląski S.A.	Bid bonds, performance bond, retention bond	108 000	PLN	ERBUD S.A. (88,000) PBDI S.A. (10 000) and ERBUD Industry Centrum Sp. z o.o. (6,000)
mBank S.A.	Bid bonds, performance bond, retention bond	927	PLN	PBDI S.A.
mBank S.A.	Bid bonds, performance bond, retention bond	1 500	PLN	Erbud Operations Sp. z o.o.
PKO Bank Polski S.A.	Bid bonds, performance bond, retention bond	1 150.	EUR	GWI GmbH
Total:		**554 427**	**PLN**	
Total:		**3 150**	**EUR**	

Insurance guarantee limits made available to the Group - as of Report Date.

Guarantor	Type of liability	Limit amount ('000 PLN)	Currency	Obligor
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond, advance payment	190 000	PLN	ERBUD S.A. (including for PBDI S.A. 15 000; including Erbud Industry Sp. z o.o. – 20.000)
PZU S.A.	Bid bonds, performance bond, retention bond, advance payment	30 540	PLN	ERBUD S.A.
Allianz Polska S.A.	Bid bonds, performance bond, retention bond, advance payment	4 240	PLN	ERBUD S.A.
KUKE S.A.	Bid bonds, performance bond, retention bond, advance payment	50 000	PLN	ERBUD S.A.
Generali TU S.A.	Bid bonds, performance bond, retention bond, advance payment	15 553	PLN	ERBUD S.A.
Euler Hermes AG.	Bid bonds, performance bond, retention bond	3 862	EUR	GWI GmbH, ERBUD S.A. and ERBUD International Sp. z o.o
ZURICH	Bid bonds, performance bond, retention bond	1 067	EUR	GWI GmbH
R+V	Bid bonds, performance bond, retention bond	6 000	EUR	GWI GmbH
AXA	Bid bonds, performance bond, retention bond	1 000	EUR	GWI GmbH
Bayerischer Versicherungverband	Bid bonds, performance bond, retention bond	1 500	EUR	GWI GmbH
Swiss RE	Bid bonds, performance bond, retention bond	1 364	EUR	GWI GmbH
Credendo	Bid bonds, performance bond, retention bond	2 500	EUR	GWI GmbH
VHV Versicherungen	Bid bonds, performance bond, retention bond	500	EUR	GWI GmbH
Generali S.A.	Bid bonds, performance bond, retention bond	7 000	PLN	PBDI S.A.
AXA	Bid bonds, performance bond, retention bond	35 000	PLN	PBDI S.A.
InterRisk	Bid bonds, performance bond, retention	7 000	PLN	PBDI S.A.

	bond			
Uniqa TU S.A.	Bid bonds, performance bond, retention bond	5 000	PLN	PBDI S.A.
KUKE S.A.	Bid bonds, performance bond, retention bond, advance payment	10 000	PLN	PBDI S.A.
Wiener DU S.A. VIG	Bid bonds, performance bond, retention bond, advance payment	5 000	PLN	PBDI S.A.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	3 000	PLN	ERBUD Industry Pomorze Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	4 000	PLN	Erbud Industry Centrum Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	500	PLN	ERBUD Industry Południe Sp. z o.o.
AXA	Bid bonds, performance bond, retention bond	2 500	PLN	ERBUD Industry Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	3 000	PLN	ERBUD Operations Sp. z o.o.
TU Gothaer.	Bid bonds, performance bond, retention bond	1 500	PLN	ERBUD Operations Sp. z o.o.
R+V	Bid bonds, performance bond, retention bond	3 000	EUR	IVT Weiner + Reimann GmbH
Total:		373 833	PLN	
Total:		20 793	EUR	

Insurance guarantee limits made available to the Group - as of the Q3 2019 Report Date.

Guarantor	Type of liability	Limit amount ('000 PLN)	Currency	Obligor
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond, advance payment	190 000	PLN	ERBUD S.A. (including for PBDI S.A. (15,000)
PZU S.A.	Bid bonds, performance bond, retention bond, advance payment	44 000	PLN	ERBUD S.A.
Allianz Polska S.A.	Bid bonds, performance bond, retention bond, advance payment	7 000	PLN	ERBUD S.A.
KUKE S.A.	Bid bonds, performance bond, retention bond, advance payment	30 000	PLN	ERBUD S.A.
Euler Hermes AG.	Bid bonds, performance bond, retention bond	7 500	EUR	GWI GmbH, ERBUD S.A. and ERBUD International Sp. z o.o
ZURICH	Bid bonds, performance bond, retention bond	3 500	EUR	GWI GmbH
R+V	Bid bonds, performance bond, retention bond	6 000	EUR	GWI GmbH
AXA	Bid bonds, performance bond, retention bond	1 000	EUR	GWI GmbH
Bayerischer Versicherungverband	Bid bonds, performance bond, retention bond	1 500	EUR	GWI GmbH
Swiss RE	Bid bonds, performance bond, retention bond	2 000	EUR	GWI GmbH
Credendo	Bid bonds, performance bond, retention bond	2 500	EUR	GWI GmbH
VHV Versicherungen	Bid bonds, performance bond, retention bond	500	EUR	GWI GmbH
Generali S.A.	Bid bonds, performance bond, retention bond	7 000	PLN	PBDI S.A.
AXA	Bid bonds, performance bond, retention bond	20 000	PLN	PBDI S.A.
InterRisk	Bid bonds, performance bond, retention bond	7 000	PLN	PBDI S.A.
Uniqa TU S.A.	Bid bonds, performance bond, retention bond	5 000	PLN	PBDI S.A.

KUKE S.A.	Bid bonds, performance bond, retention bond, advance payment	10 000	PLN	PBDI S.A.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	3 000	PLN	ERBUD Industry Pomorze Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	4 000	PLN	Erbud Industry Centrum Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	500	PLN	ERBUD Industry Południe Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	20 000	PLN	ERBUD Industry Sp. z o.o.
AXA	Bid bonds, performance bond, retention bond	2 500	PLN	ERBUD Industry Sp. z o.o.
STU Ergo Hestia S.A.	Bid bonds, performance bond, retention bond	3 000	PLN	ERBUD Operations Sp. z o.o.
TU Gothaer.	Bid bonds, performance bond, retention bond	1 500	PLN	ERBUD Operations Sp. z o.o.
R+V	Bid bonds, performance bond, retention bond	3 000	EUR	IVT Weiner + Reimann GmbH
Total:		354 500	PLN	
Total:		27 500	EUR	

Liabilities under guarantees granted to third parties ('000 PLN)

Company	Liability payment guarantee	Performance bond	Retention bond	Total contingent liabilities
ERBUD S.A.				
31 Dec. 2019	39 079	225 341	173 705	438 125
31 Dec. 2018	45 622	270 235	163 062	478 919
30 Sept. 2019	54 683	287 865	177 201	519 749
PBDI S.A.				
31 Dec. 2019	5 648	53 911	18 964	78 523
31 Dec. 2018	4 698	36 301	18 590	59 589
30 Sept. 2019	4 667	43 750	20 463	68 880
GWI GmbH				
31 Dec. 2019	10 797	13 038	44 243	68 788
31 Dec. 2018	12 900	19 500	30 991	63 391
30 Sept. 2019	12 373	12 594	48 185	73 152
Erbud International Sp. z o.o.				
31 Dec. 2019	0	213	0	213
31 Dec. 2018	0	0	430	430
30 Sept. 2019	0	0	219	219
ERBUD Industry Sp. z o.o.				
31 Dec. 2019	0	4 656	6 026	10 682
31 Dec. 2018	1 800	6 639	4 302	12 741
30 Sept. 2019	3 700	4 978	4 657	13 335
Erbud Industry Centrum Sp. z o.o.				
31 Dec. 2019	600	4 301	1.280	6 181
31 Dec. 2018	0	2 633	1 488	4 122
30 Sept. 2019	600	3 784	1 502	5 886
ERBUD Industry Południe Sp. z o.o.				
31 Dec. 2019	347	1 089	1 643	3 079
31 Dec. 2018	272	2 269	819	3 359
30 Sept. 2019	239	1 853	1 667	3 759
ERBUD Industry Pomorze Sp. z o.o.				
31 Dec. 2019	50	1 133	1 852	3 035
31 Dec. 2018	180	212	1 686	2 565
30 Sept. 2019	95	1 133	2 100	3 328
ERBUD Operations Sp. z o.o.				

31 Dec. 2019	270	8 317	3 951	12 538
31 Dec. 2018	0	5 831	2 002	7 833
30 Sept. 2018	0	6 141	1 802	7 943
IVT W&R GmbH.				
31 Dec. 2019	2 078	64	0	2 142
31 Dec. 2018	1 298	1 091	1 486	3 875
30 Sept. 2019	695	65	1 400	2 160
IVT Menzenbach GmbH				
31 Dec. 2019	686	0	0	686
31 Dec. 2018	692	0	0	692
30 Sept. 2019	704	0	0	704
2019 TOTAL				623 992
2018 TOTAL				637 516
TOTAL30 Sept. 2019				701 706

Contingent liabilities under lawsuits brought against ERBUD S.A.

Specification	31 Dec. 2019 (value in PLN M)	31 Dec. 2018 (value in PLN M)
Contingent liabilities under lawsuits brought against ERBUD S.A.	46.68	46.68

Based on legal opinions and knowledge of cases, the Management Board of ERBUD S.A. determines the probability of the Company winning cases related to contingent liabilities. Among contingent liabilities, the highest amount concerns the dispute with MPL Modlin Sp. z o.o. – PLN 34.4 million)

As of 31 December 2019, the Group had the following contingent receivables under guarantees where the ERBUD Group companies are beneficiaries.

Contingent receivables under guarantees held

Specification	As of 31 Dec. 2019	As of 30 Sept. 2019 in '000 PLN	As of 31 Dec. 2018	Company
Performance bond, retention bond, payment guarantees	72 878	69 687	65 278	ERBUD S.A.
Performance bond, retention bond	10 494	9 416	10 223	PBDI S.A.
Performance bond, retention bond	0	0	0	Erbud International Sp. z o.o.
Performance bond, retention bond	20 825	0	0	GWI GmbH
Performance bond, retention bond	14 549	14 812	19 107	ERBUD Industry Sp. z o.o.
Performance bond, retention bond	0	0	0	Erbud Industry Centrum Sp. z o.o.
Performance bond, retention bond	138	138	138	ERBUD Industry Pomorze Sp. z o.o.
Performance bond, retention bond	535	525	1 023	
Performance bond, retention bond	1 089	2 780	3 107	ERBUD Operations Sp. z o.o.
Performance bond, retention bond	43	44	43	IVT Weiner + Reimann GmbH
Performance bond, retention bond	0	0	0	IVT Menzenbach GmbH
Total:	**120 551**	**97 402**	**98 919**	

3.12. The Management Board's position on the 2019 performance forecasts

The Issuer's Management Board did not publish financial forecasts for 2019.

3.13. The Management Board's recommendation concerning the distribution of 2019 profit

In view of the situation concerning the COVID 19 pandemic, as of the Financial Statement Date, the Management Board recommends that the profit generated be retained and transferred in full to the reserve capital.

3. FINANCIAL PERFORMANCE OF ERBUD S.A.

4.1. Drivers of financial performance in 2019

In 2019 ERBUD S.A. generated a net profit of PLN 18,690 thousand compared to a loss of PLN (12,255) thousand in 2018.

In 2019 major drivers of the Group's financial performance included:

- Positive results in the building construction segment at home and abroad.
- Stabilisation of costs of materials and subcontracting services.
- Good weather conditions enabling work throughout the year.
- Strong commitment of top and mid-level management.

Profit and loss account of the ERBUD Group in analytical terms (in '000 PLN)

	2019	2017	Change (in %)
Revenues from sales of products, merchandise and services	1 463 696	1 520 592	(3.74%)
Operating expenses*	1 449 986	1 542 126	(5.97%)
Other operating profit/loss	6 034	(4 018)	250.17%
Operating profit/loss	19 744	(25 552)	177.27%
Financial activity gains/losses	3 240	8 897	(63.58%)
Gross profit/loss	22 984	(16 655)	238.00%
Income tax	4 294	(4 400)	197.59%
Net profit/loss	18 690	(12 255)	252.51%

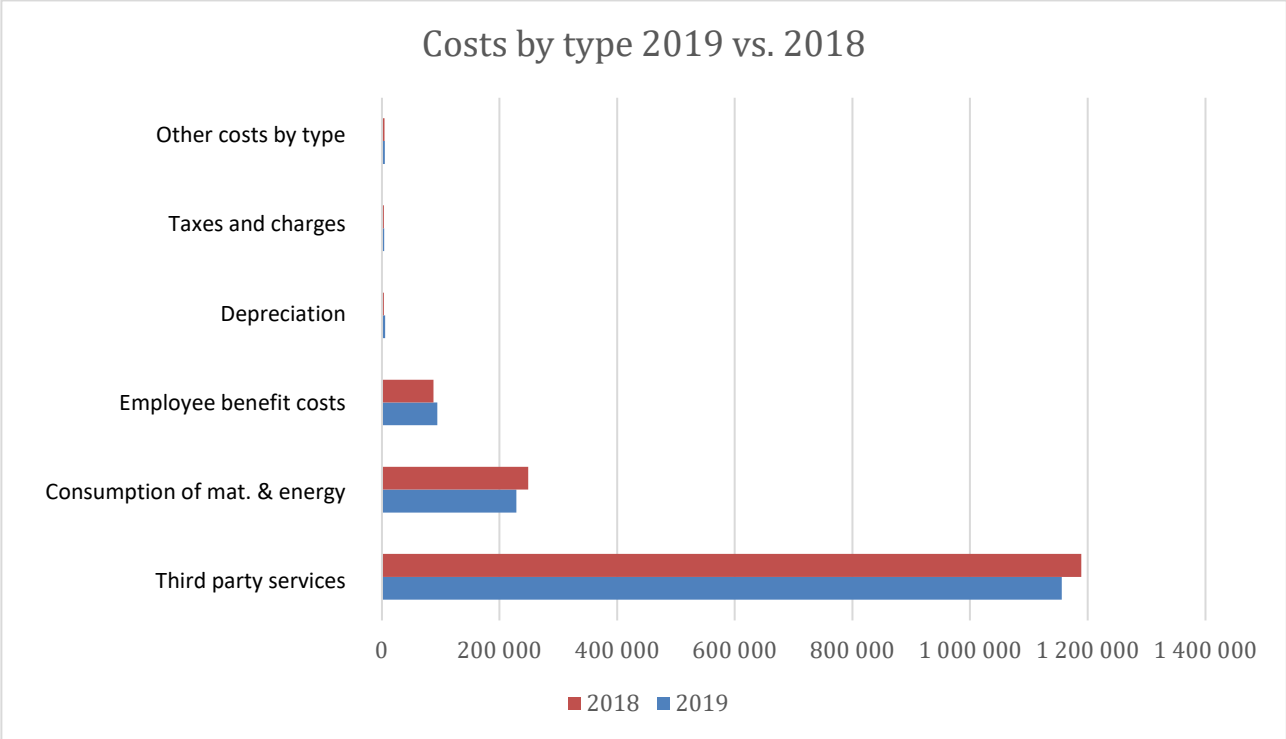
**Cost of goods sold (COGS), cost of selling, general and administrative expense (SG&A)*

In 2019, despite the fall of revenues, the Company made up for the losses incurred in 2018. The percentage margin at the level of operating profit (EBIT) was 1.35%, whereas EBITDA margin was 1.77%.

Main cost item of ERBUD S.A. (77.31% of total costs by type) were the costs of third party services, mainly the costs of work commissioned to subcontractors. In 2019, they totalled PLN 1,559 million in value terms, i.e. they were down by 2.82% compared to the previous year. Comparing this position in 2018 vs. 2017, an increase of 28.34% was recorded in 2018.

Moreover, a significant share in the Group's cost structure was held by:

- Expenditure on materials and energy - it was at the level of PLN 229 129 thousand vs. PLN 249 130 thousand in 2018. This accounted for 15.33% of total costs in 2019 and 16.19% in 2018 respectively. Down by 8.03% compared to 2018.
- Employee benefits in the amount of PLN 94 504 thousand. They accounted for 6.32% of total costs. In 2018, this relationship was as follows: PLN 88,112 thousand - 5.73% of total costs by type. In 2019, the costs of employee benefits were up by 7.25% compared to the previous year.



Operating costs of ERBUD S.A. ('000 PLN)

	2019	2018	% change
Third party services	1 155 748	1 189 277	(2.82%)
Material and energy consumption	229 129	249 130	(8.03%)
Employee benefit expenses	94 504	88 112	7.25%
Amortization and depreciation	6 135	3 617	69.62%
Taxes and charges	4 140	3 784	9.41%
Other cost categories	5 238	4 595	13.99%
TOTAL	**1 494 894**	**1 538 515**	**(2.84%)**

4.2. Statement of Financial Position

On 31 December 2019, the total assets of ERBUD S.A. amounted to PLN 712 507 thousand and were down by 8.17% compared to the 2018 year-end (PLN 775 876 thousand). The decline in assets was caused by a fall in receivables and cash assets.

Major items of the Group assets were as follows:

- Short-term and long-term trade receivables from other entities and related entities, including deposits. They totalled PLN 522,786 thousand, or they accounted for 49.29% of the total assets. Their value was down by 4.22% compared to the end of 2018.
- Cash or cash equivalents, including funds accumulated on a separate VAT account in the amount of PLN 41,491 thousand (down by 68.46% compared to the end of 2018).
- Fixed assets measured at PLN 167,525 thousand, i.e. 23.51% of total assets, up by 5.23% compared to 2018.
- Current assets measured at PLN 544,982 thousand, i.e. 76.49% of assets, down by 11.62% in relation to 2018.

As of 31 December 2019, the Company's equity totalled PLN 211,054 thousand compared to PLN 192,306 thousand at the end of 2018 (up by 9.75%). The increase in equity is primarily due to the net profit generated in 2019.

In addition, the following items had a significant share in the Group's balance sheet total:

- Long-term and short-term trade liabilities, including deposits of PLN 291,482 thousand (40.91% of liabilities). They were 30.05% down compared to the previous year.
- Long-term and short-term interest liabilities, including those resulting from the issue of bonds with a value of PLN 52 000 thousand, accounted for 14.51% of the balance sheet total and were up compared to the end of 2018 by 58.31%.
- Liabilities related to the pricing of building contracts - PLN 79,161 thousand accounted for 11.10% of the liabilities in value terms and they were up compared to 2018 by 0.44%.

4.3. Cash Flow Statement

During 2019 ERBUD S.A. recorded negative cash flows of PLN (90,442) thousand (against PLN 33 731 thousand in the previous year). They consisted of:

- Negative operational cash flows in the amount of PLN 123 209 thousand, which was influenced by the change in working capital in the amount of minus PLN 144 157 thousand.
- Positive cash flows from investment activities in the amount of PLN 4 380 thousand
- Positive cash flows from financial activities in the amount of PLN 28 407 thousand.

As of 31 December 2019 the Group held cash and cash equivalents including on a separate VAT account totalling PLN 41 491 thousand compared to PLN 131 532 thousand as of 31 December 2018.

4.4. Statement of Changes in Equity

On 31 December 2019, equity amounted to PLN 211,054 thousand (an increase of 9.75% compared to the end of 2018).

4.5. Basic financial ratios of ERBUD S.A.

Specification	2019	2018
Return of Equity (ROE) (in %)	8.86%	(6.37%)
Return on Assets (ROA) (in %)	2.62%	(1.58%)
EBIT margin (in %)	1.35%	(1.68%)
EBITDA margin (in %)	1.77%	(1.44%)
Sales profitability (in %)	4.19%	1.69%
Gross profitability (in %)	1.57%	(1.10%)
Net profitability (in %)	1.28%	(0.81%)

Rate of return on equity - net profit / equity balance
Rate of return on assets - net profit / assets balance
EBIT margin - operating profit / sales revenue
EBITDA margin – EBITDA = Operating profit + Amortization / Sales net revenue
Sales profitability – Profit on sales / Sales revenue
Gross profitability – Earnings before tax/ Sales revenue
Net profitability – Net earnings /sales revenue

Basic liquidity and debt ratios for ERBUD S.A.

Specification	2019	2018
Current ratio	1.27	1.19
Quick ratio	1.27	1.19
Debt ratio (in %)	70%	75%
Debt-to-equity ratio	238%	303%

Current ratio - current assets / current liabilities
Quick ratio - current assets - inventories / current liabilities
Debt ratio = Liabilities and provisions for liabilities / Total assets
Debt-to-Equity ratio = Liabilities and provisions for liabilities / Equity

The level of liquidity and debt ratios is better than in 2018. The achieved ratios are satisfactory, but the Management Board will strive to improve the debt ratios.

5. RISK MANAGEMENT

Risk management is a very important aspect of the ERBUD Group. The Management Board approaches the problem of risk management systemically, taking into account all possible potential risks such as:

Internal risks	External risks
Strategy • **lack of fast adaptation to ever changing market environment** • **failure to keep abreast with changing technology** • **erroneous choice of partner** **Organization** • **poor communication between operational units** • **misappropriations** • **breaches of guidelines and internal procedures**	Economics • fluctuation of raw material prices • interest rate changes • exchange rate fluctuations • inflation rate growth • increase of insurance contributions Politics • regulatory changes • entry barriers • trade embargoes • regulatory changes
Personnel • **occupational diseases** • **labour strikes** • **lack of competencies** • **loss of workers** **Processes and assets** • **accidents during transport** • **fire / failures** • **defective product quality and pollution / contamination**	Market • customer pressure on price reduction - customer consolidation • failure to comply with contractual terms by key suppliers/subcontractors • labour force deficiency in the marketplace • loss of intellectual property • competition growth Nature • flood • hurricane wind • epidemic/pandemic Social • crimes • increase of damages awareness • demonstrations

Types of risks specifically monitored in the ERBUD Group

5.1. Financial Risk

While running its operations, the ERBUD Group is exposed to the following types of financial risk: currency risk, interest rate risk, credit risk and liquidity risk. The Management Board verifies and establishes the management principles for each of the risk categories listed below.

5.1.1. Currency risk

As part of their core business, the Group companies enter into construction contracts, which are denominated in foreign currencies (primarily in euros). The currency risk management policy adopted by the Management Board consists in adjusting the contract currency to the currency of expenses connected with such contract.

For contracts denominated in Euro for which no suitable adjustment of the currency of expenditure is possible, the Company hedges the material currency risk resulting from highly probable transactions threatened with changes in cash flows that may affect the financial result of the entity. Hedging is performed by means of forward currency contracts with key parameters as close as possible to those of the hedged item.

When entering into hedging transactions, the Company applies hedging accounting principles.

5.1.1.1. Hedging of construction contracts denominated in foreign currencies - implementation of hedge accounting

- Type of hedged risk: cash flow risk related to highly probable future cash flows in foreign currencies under the building contracts. This risk is related to the strengthening of the Polish zloty - the expected cash flows from the contract in the currency will be lower in PLN.
- *Type of hedging instrument: currency forward contracts for the sale of* foreign currency in quantities and at dates corresponding to expected flows from the building contract. For the purpose of testing the effectiveness of the hedge, the interest rate *(swap* points*)* and spot exchange rate (*spot rate*) components are not separated, but the fair value changes of the entire *forward* transaction are analysed.
- Prospective hedge effectiveness testing: tests are performed at inception of the hedging instrument and at every balance sheet date. A hedging relationship is regarded to be effective, if the expected changes in the fair value or cash flows of the hedged item will be offset by changes in the fair value or cash flows of the hedging instrument.

As only hedging instruments with matching key parameters (the same currencies, amounts and dates of expected flows) are used to hedge the risk related to construction contracts denominated in foreign currencies, the Management Board considers that such a hedge will be effective. Nevertheless, to better justify the application of hedge accounting, the Group additionally examines prospectively the effectiveness using a quantitative method with the following parameters:

- Type of effectiveness testing method: by comparing the cumulative change in the fair value of the hedging instrument with the cumulative change in the fair value of the hedged item (the so called *dollar offset method*) using the so called hypothetical derivative.
- • Hypothetical derivative: for the purpose of testing the effectiveness of a financial instrument, a hypothetical derivative was separated from the construction contract as a *forward* contract for the purchase of specific amounts of foreign currencies at specific dates, corresponding to the amounts and dates under the building contract. Thus separated hypothetical derivative is subject to the same risks as the construction contract - i.e. its value decreases with the appreciation of the Polish currency (the expected cash flows under the contract in the currency will have lower value in the Polish zlotys).
- The fair value of a hedging instrument and a hypothetical derivative at a certain measurement date is understood as the sum of discounted net cash flows to be received/payable at future dates agreed upon in the term sheet of the instrument. Net cash flows for a given future date are calculated as the difference between the amount in PLN under the *forward* contract and the amount in a foreign currency under the forward contract multiplied by the forward exchange rate for a given future date

valid on the measurement date. Discounting of the net cash flows received in this manner is carried out by means of zero-coupon rates implied by the interest swap curve *in PLN*, valid as of the measurement date.

- For the purpose of the prospective test, historical market exchange rates and interest rates at 12 monthly dates prior to the planned transaction date or, in the case of a test carried out during the course of a transaction, at 12 monthly dates prior to the balance sheet date shall be used.
- For each of the 12 historical dates described above, the cumulative change in the fair value of the hypothetical derivative is calculated and compared with the cumulative change in the fair value of the hedging instrument. The relationship of the changes calculated in this manner at each date should be between 80-125%.

Retrospective hedging effectiveness test: the effectiveness test shall be carried out at each balance sheet date during the term of the hedging. A hedging relationship is regarded to be effective, if in a certain period actual changes in the fair value or cash flows of the hedged item will be offset by changes in the fair value or cash flows of the hedging instrument. As in the case of prospective tests, the dollar offset method is applied using a hypothetical derivative, with the relationship between cumulative changes in the fair value of the hedging instrument and cumulative changes in the hypothetical derivative being measured. For the purpose of the efficiency tests, thus calculated ratio must be in the range of 80-125% for each accounting period.

As at the balance sheet date, there were no contracts denominated in foreign currencies in all member companies of the ERBUD Group.

5.1.2. Interest rate risk

The interest rate risk occurs mainly in connection with the utilization of debt financing i.e. bank credits and loans, issued bonds and financial lease products and bond issue by the Group member companies. These financial instruments are based on variable interest rates and expose the Group to the risk of changes in cash flows. This risk is partially offset by the Group's idle cash deposits invested on the basis of a variable interest rate.

The Group also uses instruments with fixed interest rates, where market interest rate fluctuations have no impact on interest expenses incurred or interest income generated. Trade receivables and payables and other receivables and payables are non-interest-bearing and have a maturity of up to one year.

The Group monitors its exposure to interest rate risk and interest rate projections and allows for hedging of material interest rate risk through interest rate swaps.

When entering into hedging transactions, the Company applies hedging accounting principles.

5.1.3. Credit risk

The Group's financial assets, which are exposed to credit risk, are mainly trade receivables and construction performance bonds. The ERBUD Group has a policy of assessing and verifying credit risk related to all contracts. Before signing a contract, each counterparty is evaluated in terms of its ability to meet its financial obligations. In the event of a negative assessment of the counterparty's payment capability, entering into the contract depends on the establishment of adequate financial or asset collaterals. Moreover, contracts with investors contain clauses providing for the right to suspend the execution of works, if there is a delay in the transfer of payments for services rendered. If possible contractual clauses are also developed to condition payments to subcontractors on the receipt of funds from the investor.

5.1.4. Liquidity risk

In order to reduce the risk of liquidity loss, the Group member companies maintain an appropriate amount of cash and transferable securities as well as enter into credit line agreements, which serve as additional liquidity security. To finance investment purchases, the Group uses own funds or long-term financial lease contracts, ensuring adequate sustainability of the financing structure for this type of assets.

The Group companies cooperate both in cash and equity transactions with highly reliable financial institutions, without causing a significant concentration of credit risk. The Group pursues also a policy limiting credit exposures to individual financial institutions and issuers of debt securities, which are acquired as part of periodic investments of surplus cash. Liquidity management is supported by the existing liquidity forecast reporting system by the Group member companies.

5.1.5. Price risk

The ERBUD Group is exposed to the price risk associated with the price hikes of the most frequently purchased construction materials, such as steel and concrete. The prices in the contracts concluded with investors are usually fixed throughout the entire effective term of the contract. Therefore, price hikes of materials have an adverse effect on the Group's financial performance.

As a result of the increase in material prices, the prices of services provided to the Group by its subcontractors may also increase.

In order to mitigate the price risk, the ERBUD Group monitors the prices of the most frequently purchased materials on an on-going basis, and the contracts signed have appropriately adjusted parameters concerning, *inter alia*, contract effective term and contract value adapted to the market situation.

5.2. Operational risk

The activities of the ERBUD Group are accompanied by many operational risks, such as:

- Risk of underestimation of contract execution costs. If the value of all works necessary to perform the contract, specified in the tender offer, is underestimated, the Group may incur a loss or generate a lower profit on a certain contract.
- Risk of failure to recognise extra costs of works by the Employer. The proper performance of the subject matter of the contract sometimes requires the performance of extra works not specified in the contract, and thus incurring costs higher than accepted. Additional work may also result in the contract execution deadline being exceeded. The Group's request for additional fee may be considered groundless by the Employer.
- Risk of suspension of contracts by the investor.
- Protests by residents or ecologists in the case of road investments, delaying construction work.
- Risk of poor quality of delivered materials.
- Risk related to liability under the warranty for physical defects and guarantee of the quality of performed works.
- Risk related to the responsibility for the improper performance of construction works by subcontractors.
- Risk of loss of managerial and engineering staff. Decisions to reassign some of these staff and the no possibility to replace them with suitable staff may have a negative impact on the performance of certain contracts.

In order to minimize operational risks, the Group has an internal audit unit that monitors continuously projects and reports to the Management Board on the audit findings.

Due to the customer risk, the Customer Assessment Committee was also established. The Committee's task is to carry out the Customer's scoring before submitting a bid.

5.3. Macroeconomic Risk

The development prospects of the ERBUD Group and its financial standing depend primarily on the condition of the Polish economy and the construction industry. After a very difficult year for the industry in 2018, 2019 brought stabilization of prices of materials and services provided by subcontractors, which allowed to achieve positive performance on the implemented projects. However, the improvement in the environment of swelling costs has been accompanied by economy cooling. The development opportunities for the construction sector are particularly influenced by the share of investments into economic growth.

Most market analysts predict that the year 2020 will be advantageous for the construction industry. However, good development prospects for the construction industry may at the same time contribute to enhanced competition originating from both Polish and foreign companies, which will translate into margin squeeze.

5.4. Legal Risk

Possible changes to certain regulations may adversely affect the activities of the ERBUD Group. In particular, this refers to:

- New environmental protection requirements which may make it necessary to obtain further permits and delay the implementation of the investment.
- Changes in the regulation of licences and public procurement (e.g. introduction of additional innovation and social security requirements).
- Tightening of requirements concerning guarantee, warranty and subcontracting contracts in bidding procedures.
- Risks related to the rigour of the Group whose parent company is an entity listed on the Warsaw Stock Exchange (WSE).

In order to minimise these risks, the Group is supported by specialised law firms. There is a legal department in the Group which, *inter alia*, coordinates cooperation with third party law firms.

This is particularly important currently, where legislative changes are being made in every field.

5.5. Tax Risk

As business entities, the Group member companies are also exposed to the risk related to the tax systems in force effective in the countries where they run their business activities. Recently in Poland there have been a number of changes in all taxes. Additionally, the Group member companies upkeep business relations with one another, which requires pursuing a very restrictive transfer pricing policy. The Group works jointly tax counselling companies on a permanent basis. Members of the financial units attend in numerous training courses and sessions. Periodic audits are also carried out with the focus on tax security issues.

5.6. Environmental Risk

Environmental risk management at ERBUD S.A. is a permanent element of the process approach and is defined for each investment project. This process starts with the identification of environmental aspects and their environmental impact. For material environmental aspects, objectives and targets are set leading to the mitigation of the Company's negative environmental impact.

The major environmental aspects of ERBUD S.A. include, but are not limited to:

- land contamination,
- water pollution,
- air emissions,
- the environmental nuisance of the manufacturing process (noise, vibrations),
- utilisation of natural resources,
- substances applied in the construction products,
- waste including in particular hazardous waste,
- other aspects related to the specific nature of the construction activity.

In the organisation, an assessment of the probability of occurrence of threats or opportunities resulting from a given environmental aspect is carried out, and then an analysis of possible environmental damages and benefits related to the occurrence of a certain event is made. The classification of risks is determined on the basis of defined matrices, which present criteria of probability of occurrence of an undesirable phenomenon (environmental hazard) and criteria of the effect of the occurring phenomenon (outcome). The purpose of the aforementioned analysis is to determine what risks and impacts on the environment result from the identified significant environmental aspects and what is their environmental impact and contract performance. The defined environmental risks are constantly monitored when each construction project is being performed and described in the Environmental Programme, which defines:

- environmental objectives for individual environmental aspects,
- the risks and opportunities associated with environmental aspects and the risks and benefits related to them,
- preventive measures to minimize risks and achieve objectives,
- persons responsible for preventive measures.

The effect of the assessment of the environmental impact of a facility, through the identification of significant risks, is to indicate ways to reduce the negative environmental impact of construction activity in the future.

5.7. Climate Risk

Based on the guidance provided in the Climate Information Reporting Supplement (2019/C 209/01), including the appendix in the form of Recommendations of the Task Force on Climate Financial Disclosure (TCFD) (under Materials and Buildings Group), types of climate risks were identified for the ERBUD Group. They are presented in a table below:

Risk categories based on financial materiality	Individual risks	Risk categories based on environmental and social materiality	Individual risks
Acute physical risk	- the risk of heat waves disrupting the value chain due to the overloading of the energy system by air conditioners and shortening	Risks associated with the transition concerning political aspects	- tightening energy efficiency requirements due to climate change and lack of access to water or overloading of the power system,

	the working time of employees, - the risk of abrupt storms or hurricanes disrupting the value chain due to flooding or destruction of transport routes and construction sites, as well as the breaking of electric traction lines or the discontinuation of the supply of process utilities, - the risk of floods disrupting the value chain due to flooding or destruction of transport routes and construction sites, as well as the breaking of electric traction lines or the discontinuation of the supply of process utilities, - the risk of outbreak of fires disrupting the value chain by destroying your own property or that of your partners in the value chain.		- change of the mechanisms for setting charges for greenhouse gas emissions affecting the purchase of fossil fuels or other non-renewable raw materials, - changing land management policies due to their location in areas of climate risk or impact on climate changes.
Long-term physical risk	- the risk of reducing the amount of available process water disrupting the value chain, in connection with the drop in surface and groundwater levels as a result of rainfall, - the risk of reducing the working time of workers disrupting the value chain as the average temperature rises.	Transition risk concerning political aspects	- the risk of a possible lawsuit in case of too much adverse impact on the climate, e.g. due to failure to adapt to climate change.
		Transition risk concerning technological aspects	- the risk of not using technologies with less harmful impact on the climate.
		Transition risk concerning market aspects	- the risk of redirecting business customers' choices to solutions and structures that have an even more passive impact on the climate.
		Transition risk concerning loss of reputation	- the risk of failure to attract and retain business customers, if the Group's operations are deemed to be harmful to the climate, - the risk of failure to attract and retain personnel, if the Group's operations are deemed to be harmful to the climate, - the risk of failure to attract and retain investors, if the Group's operations are deemed to be harmful to the climate, - the risk of failure to attract and retain suppliers and

			subcontractors, if the Group's operations are deemed to be harmful to the climate.

5.8. Cyberattack Risk

The group of risks to which the companies are currently exposed includes also cyberattack risk. According to the Forbes monthly, Poland is on the 20th position in the ranking of the most threatened countries. Although the major industries exposed to cyberattacks are energy and transport, they also include the industries in which the ERBUD Group operates. These usually concerned theft of personal data. Given the above, the Management Board of ERBUD S.A. decided already in 2018 to carry out a "stress-test" and take out an insurance policy with protection against the consequences of cyberattacks. All the Group member companies pursue a uniform IT policy.

5.9. Coronavirus Risk

The occurrence of uncertain and unpredictable circumstances, including the outbreak of SARS-CoV-2 pandemic with associated consequences of declaring an epidemic emergency status, may in short- and long-term have a negative impact on the ERBUD Group's business, development prospects and financial standing. The important areas, which the Company monitors on an on-going basis and which may pose the greatest risk to the future performance of the ERBUD Group are as follows: (i) temporary absence of construction staff, which may contribute to the delay of construction processes, (ii) delays in the supply of construction materials and services, (iii) slowdown in the activities of public administration bodies, including in particular administrative decision-making process, (iv) contracting authorities' decisions to suspend work on individual construction contracts, (v) contracting authorities' decisions not to implement planned construction projects, e.g. due to difficulties in raising financing.

In the opinion of the Management Board of the ERBUD Group, as of the date of approval of the financial statements, the liquidity positions of the Group and the Company remain stable.

The Management considers the resultant situation as an event not necessitating adjustments in the 2019 financial statements, but as a post-balance sheet event that requires additional disclosures. As the situation continues to evolve, management of the company believes that it is not possible to provide quantitative estimates of the potential impact of the current situation on the company. The management will continue to monitor the potential impact and will take all possible steps to mitigate any negative impact on the ERBUD Group.

5.10. Insurance

The ERBUD Group uses insurance products covering company's business risk, Directors & Officers Civil Liability and construction and erection risks (covering contract work and property under construction).

5.10.1. Insurance contracts

As of the 2019 financial statement date, all insurance contracts were extended.

Given the above the most important contracts are as follows:

Insurer	Valid from	Valid to	Subject of insurance	Value of insurance
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	1 Feb. 2019	31 Jan. 2020	Civil liability business insurance	PLN 100 million for one and all events
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	1 Feb. 2020	31 Jan. 2021	Civil liability business insurance	PLN 100 million for one and all events
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	1 Feb. 2019	31 Jan. 2020	Third party liability insurance of the designer	PLN 10 million for one and all events
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	1 Feb. 2020	31 Jan. 2021	Third party liability insurance of the designer	PLN 10 million for one and all events
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	1 Feb. 2019	31 Jan. 2020	Construction and erection all risks insurance	Open
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	1 Feb. 2020	31 Jan. 2021	Construction and erection all risks insurance	Open
Chubb Euroean Group Limited Sp. z o.o. Polish Branch	1 Jun. 2018	31 May 2019	D&O Insurance	PLN 40 million
Chubb Euroean Group Limited Sp. z o.o. Polish Branch	1 Jan. 2019	31 May 2020	D&O Insurance	PLN 40 million
Chubb European Group SE, European company, Polish Branch	23 Feb. 2019	22 Feb. 2020	Corporate Cyberattack Insurance – CYBER ERM	PLN 5 million
Chubb European Group SE, European company, Polish Branch	23 Feb. 2020	21 Feb. 2021	Corporate Cyberattack Insurance – CYBER ERM	PLN 5 million

6. Litigations

Both in cases where the Issuer is the plaintiff (cases related to receivables) and in cases where the Issuer is the defendant (cases related to payables) the position of the Issuer and its legal advisors prove that the proceedings will be solved in favour of the Issuer.

Proceedings to which ERBUD SA is a party as of the Report Date, concerning payables or receivables of the Issuer or its subsidiary (including the case subject, the amount in dispute, the date of the proceeding initiation and the Issuer's perspective)

6.1. Material proceedings to which the Issuer is the plaintiff

6.1.1.

Defendant: Bank Millennium S.A. in Warsaw

Date of filing a lawsuit: 22 December 2010

Value of the dispute: PLN 71,065,496

In 2008 Bank Millennium S.A. advised ERBUD S.A. to conclude FX option transactions to hedge against FX risk under the contracts denominated in EUR executed by the Issuer. The Bank's proposal was driven by a need of the Issuer to obtain security adequate to its situation. According to the Company, the product was not optimally adjusted to the ERBUD S.A. needs. In Q4 2008, as a result of a drastic revaluation of Polish zloty (PLN) in the PLN/EUR pair, Bank Millennium S.A. informed the Issuer about a negative valuation of the exposure held at that time.

At the same time, a dispute arose over the content of FX option transactions, mainly with respect to the exclusion of option structures. During numerous discussions, the Issuer presented its position to the Bank, in which it demanded that the transaction be carried out with the undertaking of actions aimed at enforcing of existing claims. In order to limit the amount of potential loss, the disputed transactions were restructured and the Bank was informed about legal actions taken in the future to remedy the loss resulting from FX option transactions. The restructuring details were presented by the Issuer in RP 43/2008 on 21 November 2008 and in the 2008 Financial Statements. The Issuer never agreed with the position of Bank Millennium S.A. and therefore called upon the Bank twice demanding the Bank to pay the amount of PLN 71,065,496, which consists of the amounts collected by the Bank from the Issuer's bank account, foregone profits and costs of legal and financial advisors. In connection with the above, the Issuer decided to bring an action for payment of compensation for the loss.

16 September 2016 the Management Board of ERBUD S.A. was informed by its legal counsels about the decision taken by the District Court in Warsaw. Pursuant to the decision, the Court dismissed the Issuer's claim in its entirety.

On 4 November 2016, the Issuer filed an appeal against the decision. The decision was appealed against in its entirety, and the appeal allegations focus in particular on incorrect findings and conclusions of the Court of First Instance regarding the incorrect determination by the Court of First Instance of the content of the disputed transactions, as well as incorrect interpretation of documents, including documents confirming transactions. In addition, a reference was made to numerous rulings of the District Court and the Court of Appeal in Warsaw, issued in similar cases when the Courts issued rulings favourable to the customers of Bank Millennium under circumstances similar to those of the Issuer.

The above ruling does not have any influence on the financial position of the Issuer because the entire loss related to options was settled in the year of its occurrence, i.e. in 2008.

On 29 May 2018 the Court of Appeal in Warsaw announced the ruling in the case filed by ERBUD S.A. against Bank Millennium S.A., in which it upheld the appeal of the Company.

The Court of Appeal in Warsaw, in its decision of 29 May 2018, overruled the appealed decision of the District Court in Warsaw of 16 September 2016 and referred the case back to that court for re-examination together with the decision about the costs of the appeal proceedings.

On 13 July 2018 the Company was informed about a complaint filed by Bank Millennium S.A. with the Supreme Court against the ruling of the Court of Appeal in Warsaw of 29 May 2018 concerning the action brought by ERBUD S.A. against Bank Millennium S.A.

In its complaint Bank Millennium questions the advisability of repealing the ruling and referring the case back to the District Court in Warsaw for re-examination, indicating that the Court of Appeal should decide the case itself. on behalf of the Company its Legal advisors submitted a response to the complaint.

On 28 September 2018 the Supreme Court issued a decision about the case brought by the Issuer against Bank Millennium S.A., in which it accepted the complaint of Bank Millennium S.A. By virtue of its decision of 28 September 2018 the Supreme Court, overruled the appealed decision of the Court of Appeal in Warsaw of 29 May 2018 and referred the case to the Supreme Court for further consideration together with the decision on the costs of the appeal proceedings.

On 3 June 2019 Court of Appeal in Warsaw decided:

To admit ex officio evidence from a court expert's opinion in the field of finance, economics and banking to the circumstances:

- clarification of the substance and mechanism of the contracts concluded by the parties on 9 and 11 July 2008 and 14 August 2018 as regards the contract between the parties;

- whether the above-mentioned contracts were adjusted to the claimant's market position;

- what function they performed, and in particular whether they performed a function securing the claimant's interests;

- whether the type of the switch (bilateral or unilateral) was important for the performance of the function securing the claimant's interests;

- assessment of risk of both parties to the above mentioned contracts, determination whether there was an identical probability of profit and loss on both sides and determination of possible disproportion of positions of both parties to this end;

- whether by concluding the above-mentioned contracts the claimant was exposed to the exchange rate risk, whether the defendant was exposed to the exchange rate risk and whether the degree of such risk was determined, in particular whether the risk was unlimited for any of the parties;

- whether the conclusion of the aforementioned contracts was of speculative nature;

- determine whether the information provided to the claimant prior to the conclusion of the aforementioned contracts was complete, reliable and comprehensible, whether the content of the information provided represented a sufficient basis for risk analysis and making a fully judged decision regarding the conclusion of the aforementioned contracts.

Have the court expert draw up a written opinion in three copies within two months.

Further decisions shall be taken after the expert's opinion has been drawn up.

Until the date of publication of the financial statements, the status of the case has not changed.

6.1.2.

Defendant: DSH – Dopravni Stavby, a.s., Brno in the Czech Republic

Date of filling a lawsuit: 14 February 2012

Value of the dispute: PLN 26,923,644.16

Current state of the affairs: On 27 May 2014 ERBUD S.A. extended the claim by the amount of PLN 22,925,604.52 claiming additionally the reimbursement of costs of substitute performance. In a letter dated 27 April 2014 and delivered on 1 July 2014, the defendant filed a counterclaim for the amount of PLN 5,651,633. On 6 November 2015, a hearing was held. The parties have agreed to request the cancellation of the hearing in order to continue the settlement proceedings. The settlement talks were fruitless. All witnesses requested by the Parties have been interviewed. Upon the unanimous request of the Parties, the Court set a 30-day time limit for the expert to specify the proof of evidence and to submit detailed questions to the opinion. On 17 August, CEMEX notified about its accession on ERBUD S.A. side as a secondary intervener. At the main hearing held on 12 December 2018, the court dismissed both oppositions. ERBUD S.A. requested the delivery of the decision along with rationale. Once the written rationale has been examined, a decision will be made to lodge a complaint. The date of hearing is missing.

6.1.3.

Defendant: Kępska S.A. with its registered office in Warsaw

Date of filling a lawsuit: 22 April 2014

Value of the dispute: PLN 9,877,132

The Issuer is claiming from Kępska S.A. the payment of remuneration for the execution of construction works. Action brought on 22 April 2014. The Issuer requested that Kępska S.A. be adjudicated to pay the above amount.

In the course of the case examination, a court expert opinion and two complementary opinions were prepared. According to these opinions, Erbud performed the works under the contract in compliance with deadlines amended by the annexes and by virtue of additional agreement.

By virtue of its decision of 24 April 2018, the Court allowed the claim for payment and adjudicated Kępska S.A. to pay Erbud the amount of PLN 9,877,131.31 with statutory interest. In the rationale, the Court stated that the defects of the works referred to by the defendant did not entitle the defendant to withdraw from the agreement and that Erbud should be paid for works performance.

On 6 November 2018, as a result of appeals filed by Erbud and Kępska S.A. against the court decision, the Court of Appeal in Wrocław recognized, by virtue of its ruling, the termination of the general contractor agreement by Erbud SA to be effective, adjudicated the amount of PLN 4,316,464.11 plus interest from Kępska S.A. to Erbud SA, set aside the court decision for re-examination with regard to the receivables awarded therein in the amount of PLN 5,560,667.20, and dismissed the appeals of the Parties to the remaining extent.

After the case was reopened by the District Court in Opole, evidence from a supplementary expert's opinion in the field of construction appraisal and real estate management was carried out.

Estimated date for completion of proceedings before the Court of First Instance in the case concerning the payment: 2020

6.1.4.

Defendant: Academy of Music in the City of Łódź

Date of filling a lawsuit: 20 December 2013

Value of the dispute: PLN 2,050,515

Counterclaim

Defendant: Erbud SA

Value of the dispute: PLN 4,135,790.96

Date of filling a lawsuit: 16 December 2014

On 20 December 2013 ERBUD S.A. brought an action for payment of PLN 1,895,430.00 as remuneration for the construction works performed by the Claimant for the Defendant under Contract No. 694/U/AMŁ/2012 of 20 December 2012, under which the Claimant issued an invoice to the Defendant on 30 July 2013, and for the payment of PLN 74,934.40 - in relation to the statutory interest due to the Claimant on the amount of remuneration accrued from the due date of the claim (i.e. 29 August 2013) to the date of bringing an action (i.e. 20 December 2013) and the amount of PLN 80,150.37 - as compensation of Academy's misperformance of the Contract No. 209/U/AMŁ/11 of 15 September 2011, as a result of which ERBUD S.A. suffered damage in the form of higher costs of running construction activities for a period longer than provided for in the aforementioned Contract, i.e. in the period from 1 June 2013 to 15 July 2013. The defendant Academy of Music filed a response to the statement of claim demanding that the statement of claim be dismissed in its entirety and referred to its statutory right of set-off of contractual penalties. Pursuant to the Decision of 5 November 2015 the Court merged the case with a counterclaim brought by the Academy of Music. More witnesses are being interviewed. Upon the request of the Academy of Music, mediation proceedings were conducted in order to reach a settlement. The Parties did not agree during mediation, the proceedings are continued. The expert delivered its opinion on 16 December 2017. There was also an on-site inspection attended by an expert. A supplementary opinion was submitted and ERBUD S.A. filed charges against it and supported its current position. The defendant's objections to the expert's opinion led to the development of supplementary opinions No. 4 and No. 5, in which the expert upheld the position voiced in the main opinion.

On 20 March 2019 the court closed the hearing and on 22 March 2019 announced its decision under which:

awarded ERBUD the amount of PLN 1,970,364.40 with statutory interest, accrued from 19 December 2013 until the date of payment,

the remaining part of lawsuit was dismissed (counterclaim)

ordered the costs of court proceedings totalling PLN 120,203.57 to be paid to ERBUD.

The Academy of Music filed an appeal against the part including the claim, and ERBUD S.A. has responded to the appeal. ERBUD S.A. did not appeal because the judgment was properly justified and does not challenge it. There was no date set for the appeal hearing.

6.1.5.

Defendant: Platinum Resort Sp. z o.o.

Date of filling a lawsuit: 3 December 2018

Value of the dispute: PLN 16.301.236,97

Counterclaim

Defendant: Erbud SA

Value of the dispute: 13,516,629.86

Date of filling a lawsuit: 27 April 2019

Erbud filed a request with the District Court in Szczecin to secure a cash claim in the amount of PLN 5,455,851.09 in relation to the contractual penalty for withdrawal from the Construction Works Contract of 26 January 2017 for the execution of the project titled "Construction of a four-star hotel complex consisting of: Three hotel buildings with land development in Żeromskiego Street in the City of Świnoujście" by encumbering the properties belonging to Platinum Resort Sp. z o.o. with a joint compulsory mortgage. By virtue of its Decision of 19 November 2018

the Court granted security by entering the compulsory mortgage into the land and mortgage registers of the aforementioned real estate, as well as by the attachment of bank accounts of Platinum Resort Sp. z o.o.

On 3 December 2018 the Issuer filed a lawsuit for payment of PLN 16,301,236.97 together with interest in the writ of payment proceedings for remuneration and other claims related to the execution of the aforementioned investment together with an additional request for securing claims.

Platinum Resort Sp. z o.o. filed a complaint against the decision on security to which the Issuer's attorneys replied. To date, the Szczecin Court of Appeal has not heard the complaint.

The Szczecin District Court found that there were no grounds for issuing a payment order and referred the case to be examined in ordinary proceedings. The claim was forwarded for servicing to the defendant. By virtue of decision of 22 February 2019 the District Court secured the claim of Erbud S.A. for another amount of PLN 3.5 million by establishing a compulsory mortgage on the property.

The Court of Appeal validly dismissed the Defendant's complaint regarding the provision of security.

On April 27, the Defendant filed a response to the statement of claim together with the counterclaim in which he requests that Erbud be awarded PLN 13,516,629.86, consisting of PLN 5,455,851.09 as an alleged contractual penalty calculated by the Defendant and PLN 8,060,778.77 as reimbursement of the allegedly overpaid remuneration collected by Erbud for the performance of the construction contract.

Erbud's attorneys submitted a replica of the response to the statement of claim together with the response to the counterclaim, upholding the existing position and requesting that the counterclaim be dismissed in its entirety.

Estimated date for completion of proceedings before the Court of First Instance: 2022

The value of other litigations where ERBUD S.A. is the Defendant totals PLN 23,093,655.67

6.2. Material proceedings to which the Issuer is the defendant

6.2.1.

Claimant: Mazowiecki Port Lotniczy Warszawa-Modlin Sp. z o.o. (*Warsaw Modlin Airport*) ("MPL")

Defendant: ERBUD S.A. in Warsaw

Date of servicing an action to ERBUD S.A.: 23 May 2014

Value of the dispute: PLN 34 381 374.64

Counterclaim

Claimant: ERBUD S.A. in Warsaw

Date of filling a lawsuit: 11 October 2014

Value of the dispute: PLN 19,892,366.30

On 12 May 2014, a statement of claim was delivered to ERBUD S.A. in which the Warsaw Modlin Airport (MPL) requested payment of PLN 34,381,374.64 for damages along with statutory interest and litigation costs. The damages claimed by the Warsaw Modlin Airport (MPL) consists of losses and benefits incurred by the claimant and lost as a result of allegedly improper performance by ERBUD of the Contract of 14 September 2010 for the construction of the Warsaw-Modlin Airport No. PLM/K/96/2010 and suspension of air traffic on a part of the airport runway.

11 October 2014 ERBUD S.A. submitted a reply to the statement of claim in which it requested that the Warsaw Modlin Airport's (MPL) claim be dismissed in its entirety and that the costs of the proceedings be reimbursed. At the same time, irrespective of the claim lodged by the claimant, the Company instituted a counterclaim against Warsaw Modlin Airport (MPL), requesting that the amount of PLN 19,892,366.30 with statutory interest be awarded to the Company. The counterclaim consists of costs incurred by ERBUD S.A. for repairs of the airfield surface at the Warsaw-Modlin airport.

The case has a complicated factual state of affairs and extensive evidence has been submitted during the proceedings. It will be necessary take several proofs from the expert opinions. The hearing of witnesses in the case was completed.

On 20 August 2019, the Court issued an order to entrust an expert with the performance of an opinion on the construction industry (reasons for defects in the surface and assessment of alternative repair options).

At the same time, ERBUD S.A. supports the assessments presented in the earlier memoranda, according to which the risk of awarding a claim in favour of MPL is lower than the chance of claim dismissal. However, even if the Court found MPL's claim justified, the amount of awarded damages would be significantly lower than the amount claimed in the action brought by MPL, since ERBUD S.A. is able to question almost every element of the claim lodged by MPL.

Total value of other proceedings where ERBUD S.A. is the defendant: PLN 12,887,867.57

7. ERBUD S.A. IN CAPITAL MARKET

In 2019, the share price of ERBUD S.A. was rising steadily. On 2 January 2019 the exchange rate was PLN 9.54 and on 30 December 2019 - PLN 19.20.



7.1. Listing of ERBUD S.A. shares on WSE

In 2019, only 7 companies had their IPOs on the WSE. In 2019, one of the best indices was sWIG80 (small companies index), which gained about 14%. The other indices were not so bullish. The WIG 20 index is the only European index to be among the worst 20 major stock exchange indices globally, along with African indices, with indices of the countries from the Middle East. They frequently recorded losses there above 10%. In 2019 WIG 20 lost 5.6%. The weak performance of the WIG20 index is primarily due to price falls of shares of the companies in the banking and energy sectors. In 2019, WIG-IT showed the best performance, it was up by 42.29%, and WIG-Fuels showed the worst performance - it was down by 18.87%. In 2019 WIG-Construction index gained 18.89%. Against the background of this information, ERBUD S.A.'s shares performed very well, and in 2019 their price was up by more than 100% from the level of PLN 9.54 at the beginning of January to PLN 19.20 at the end of December.

7.2. Dividend

In order to provide shareholders with the opportunity to carry out a long-term investment program based on clear and stable criteria for the distribution of earnings generated, on 26 January 2016, the Management Board passed a resolution on the adoption of the ERBUD S.A dividend policy. Pursuant to the adopted resolution, the Management Board will recommend to the General Meeting of Shareholders, after the evaluation of the motion by the Supervisory Board, concerning dividend payment accounting from 30 to 50 per cent of net consolidated financial income generated in the previous financial year, taking into account the current and future financial standing of the company and the Capital Group. In the recommendation, the Management Board shall, in particular, take into account investment needs arising from the implementation of the ERBUD Group's strategy, the Company's liquidity needs, current and deferred liabilities. In case the above factors have been exceptionally well rated and the Supervisory Board has given a positive opinion, the Management Board may recommend the distribution of a higher dividend.

On 11 March 2019, the Management Board adopted a new ERBUD S.A. dividend policy, repealing the dividend policy of 26 January 2016.

Pursuant to the adopted resolution, the Management Board will recommend to the General Meeting of Shareholders, after the evaluation of the motion by the Supervisory Board, concerning dividend payment accounting from 30 to 70 per cent of net consolidated financial income generated in the previous financial year, taking into account the current and future financial standing of the company and the Capital Group. In its recommendation on dividend payment, the Management Board will, in particular, take into account investment projects required by the execution of the Erbud Capital Group's strategy.

In its recommendation for the General Meeting of Shareholders, the Management Board will each time take into account the following key factors:

- the acquisition policy pursued by the Company and available financing in relation to that policy,
- liquidity needs of the Erbud Capital Group depending on current and expected market and regulatory environment,
- the amount of liabilities due to current operations and debt servicing,
- liabilities under concluded agreements on financing the operations of the Company and the Erbud Capital Group, including in particular loan agreements,
- proceeds from dividends received by the Company from its subsidiaries,
- optimization of the financing structure of the Erbud Capital Group's operations.

If the above factors have been assessed exceptionally and the Management Board's proposal regarding profit distribution has been viewed positively by the Supervisory Board, the Management Board may recommend a higher dividend payment, exceeding 70% of the consolidated net financial income.

The Management Board may pay shareholders an advance on the expected dividend at the end of the accounting year, if the Company has sufficient funds to pay out and this option is provided for in the Statute. The Erbud SA's Management Board is authorized, pursuant to § 18, par. 4 of the of the Company's Statute and subject to Supervisory Board's consent, to pay a dividend advance. The company may pay an advance if its approved financial statements for the previous accounting year show profit. The advance may account maximum for half of the profit generated since the end of the previous accounting year, shown in the financial statements, audited by the statutory auditor, increased by reserve funds established out of profit, which the Management Board may use to pay advances, less uncovered losses and own shares.

In 2019 the Company did not pay dividend. Table below presents dividend payments in previous years.

	2013	2014	2015	2016	2017
Net profit of ERBUD S.A. ('000 PLN)	8 416	12 245	11 397	11 103	12 539
Dividend paid from profit generated in a given year ('000 PLN)	8 900	6 381	15 374	14 980**	14 093**
Dividend per share in PLN	0.70	0.50	1.20	1.17	1.12
Record date	21 Jul. 2014	15 Jul. 2015	17 May 2016	9 Jan. 2017	5 Jun. 2018
Dividend rate* (in %)	2.8	1.5	4.2	3.9	6.5

** Dividend rate calculated as the quotient of dividend per share and share price two days prior to the record date.*

*** Extraordinary dividend from supplementary capital created from retained earnings*

7.3. Investor relations

ERBUD S.A strives at providing the highest standards of communication with capital market players. The particular importance is attached to the fairness of information, transparency and to equal treatment of all stakeholders and complies with all legislation on disclosure duties applicable to the companies whose securities are listed on a regulated market.

The Company attaches great importance to the quality of communication with stakeholders via its website: www.erbud.pl/relacje_inwestorskie. It contains up-to-date information concerning, *inter alia*, the quotations of the ERBUD shares on the Warsaw Stock Exchange, General Meetings of Shareholders and Corporate Governance.

Corporate website contains also the publications of current, periodic and annual reports, quarterly and annual financial highlights (including XLS sheets) and teleconference records, during which the Management Board presents quarterly results. It is also a rule that once a quarter, on the day of publication of the quarterly report, teleconferences are organised.

In addition, the media are provided with significant information about operating and corporate activities on an on-going basis.

7.4. Recommendations

In 2019, ERBUD S.A. received two sell-side recommendations from analysts of brokerage houses and investment banks:

- Buy – 0,
- Reduce – 0,
- Hold – 2.

These recommendations do not represent a forecast or opinion of the Management Board of ERBUD S.A.

8. CORPORATE GOVERNANCE

8.1. Rules and Scope of Corporate Governance

The Issuer applies the rules of corporate governance provided in the "Best Practice of WSE Listed Companies 2016", which were adopted by virtue of the Resolution of the Supervisory Board of the Warsaw Stock Exchange S.A. on 13 October 2015.

The content of the "Best Practice of WSE Listed Companies 2016", as well as the content of the Best Practice of ERBUD S.A. can be found on the Company's website at the following address: http://www.erbud.pl/dobre_praktyki.php.

In 2019 the Company did not apply the following rules provided in the Best Practice of WSE Listed Companies 2016:

Principle	ERBUD S.A. comment
I. Information policy and communication with investors	
I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:	
I.Z.1.8. selected financial data of the company for the last 5 years of business in a format enabling the recipient to process such data.	Data is available in other formats.
I.Z.1.16. information on the planned broadcast of the general meeting of shareholders - not later than 7 days before the date of the general meeting of shareholders.	The company does not plan to broadcast the general meeting
I.Z.1.20. audio or video recordings of the proceedings of the General Meeting of Shareholders.	The Company does not record the general meeting in audio or video company.
IV. General meeting and shareholders' relations	
IV.R.2. If it is justified due to the shareholding structure or the expectations of shareholders proposed to the company, as long as the company is able to provide the technical infrastructure necessary for the smooth conduct of the General Meeting of Shareholders by means of electronic communication, it should enable shareholders to attend the General Meeting of Shareholders using such means of communication in particular through: 1) real-life broadcast of the General Meeting of Shareholders; 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the General Meeting of Shareholders; 3) exercise of the right to vote during a general meeting either in person or through a proxy.	Owing to the shareholding structure and the lack of such expectations on the part of the shareholders the Company does not plan to broadcast the proceedings of the General Meeting of Shareholders.
IV.Z.3. Presence of representatives of the media should be allowed at	There is not such demand.

General Meetings.	
VI. Wages and salaries	
VI.R.1. The remuneration of members of the company's governing bodies and key managers should stem from the adopted remuneration policy.	The Company does not have remuneration policy for the members of Company governing bodies. Wages and salaries to this extent are based following arms' length principle.
VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.	The Company does not have remuneration policy for the members of the Company governing bodies.
VI.Z.4. The Company in its activity report presents an account of the remuneration policy, containing at least: 1) general information on the remuneration system adopted in the company, 2) information about terms and amount of remuneration of each management board, member, broken down into fixed and variable components of remuneration, indicating the key parameters for determining variables, remuneration components and payment rules for severance pay and other payments for terminating a relationship, work, mandate or other legal relationship with similar nature - separately for the company and each entity that is a member of the Capital Group, 3) information about non-financial components of remuneration due to individual members of the management board and key managers, 4) indication of material changes that have occurred in the remuneration policy during the last accounting year, or information about their absence, 5) operational assessment of the remuneration policy from the perspective of achieving its objectives, in particular long-term growth of shareholders' value and stability of the company's operation.	The Company reports the remuneration of members of the Management Board and the Supervisory Board in the Activity Report.

8.2. Control and risk management systems in the process of preparing financial statements

Separate financial statements are prepared by qualified finance and accounting departments of companies forming ERBUD Group and are audited by independent authorised auditors with participation of Erbud Shared Services Sp. z o.o. personnel, that provides book keeping services to all ERBUD Group member companies, except for GWI GmbH Group. Financial statements are audited by independent authorised auditors.

Consolidated financial statements of the ERBUD Group are prepared by trained and experienced staff of ERBUD SA. Both separate and consolidated statements are subject to internal control carried out by the Company's Management Board, Audit and Internal Control Department (prior to and during audit), Audit

Committee of the Supervisory Board (during the audit) and by statutory auditors appointed by the Supervisory Board.

The risk management with regard to valuation of assets and liabilities, including the valuation of projects in progress, and with respect to the provisions set up, is based on on-going monitoring of their value and adjustments in the interim and annual financial statements according to changes in the fair value of these assets.

The state of completion of projects is determined on the basis of the system "Evaluation of the effectiveness of projects performed as General Contractor" which is implemented directly on each project (construction site) and verified by the management of Branch Offices, Internal Audit and the Controlling Office personnel.

8.3. Shares and shareholders of ERBUD S.A.

As of 31 December 2019 and as of the date of publication of the Financial Statements, the registered share capital amounted to PLN 1,281,185.90 and was divided into 12,811,859 shares with a par value of PLN 0.10 per share.

There were no changes in the share capital of the Company in 2019.

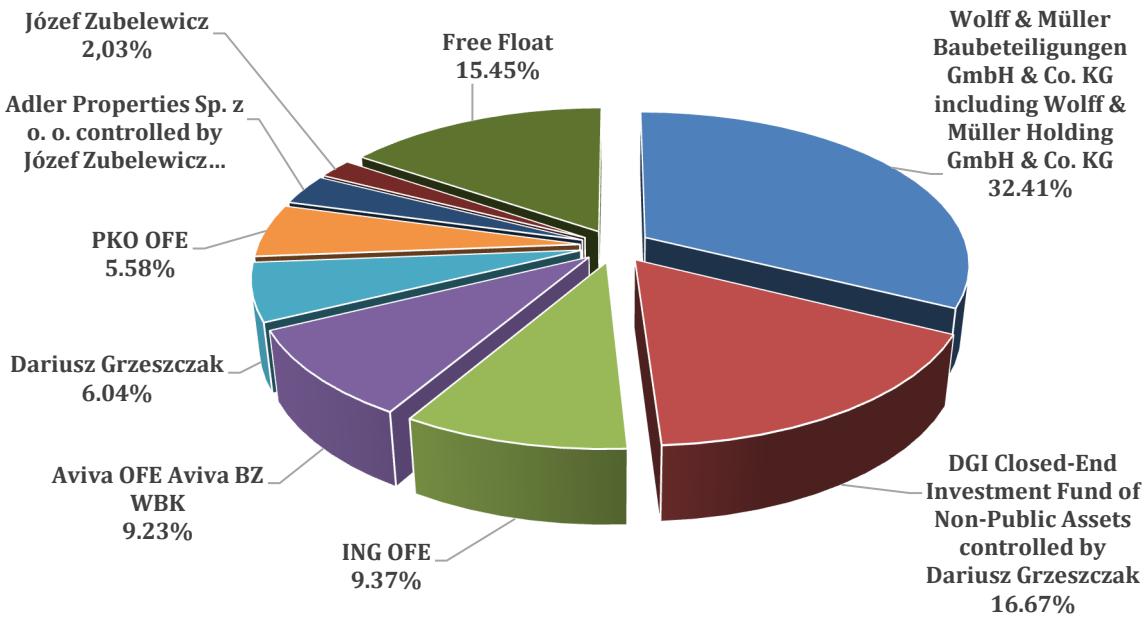
Series	No.	Price in nominal terms (in PLN)	Value (in PLN)
A	2 000 000	0.10	200 000
B	8 000 000	0.10	800 000
G	71 025	0.10	7 102
D	2 500 000	0.10	250 000
E	31 686	0.10	3 169
F	41 458	0.10	4 146
G	33 787	0.10	3 379
H	36 590	0.10	3 659
I	47 379	0.10	4 738
J	49 934	0.10	4 993
Total:	**12 811 859**	**0.10**	**1 281 186**

ERBUD S.A shares are ordinary bearer ones. There are no special control rights attached to the Company's shares. The Articles of Association of ERBUD S.A. also does not impose any restrictions on the transfer of ownership of shares issued by the Company, on exercising voting rights, and does not include provisions under which the equity rights attached to securities are separated from the owning of securities.

As of 31 December 2019, the list of shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting of ERBUD S.A. was as follows:

Name of shareholder	As of 7 Apr. 2020		As of 31 Dec. 2019		As of 14 Nov. 2019	
	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM
Wolff & Müller Baubeteiligungen GmbH & Co. KG including Wolff & Müller Holding GmbH & Co. KG	4 152 865	32.41%	4 152 865	32.41%	4 152 865	32.41%
DGI Closed-End Investment Fund of Non-public Assets controlled by Dariusz Grzeszczak	2 136 260	16.67%	2 136 260	16.67%	2 136 260	16.67%
Nationale Nederlanden PTE S.A.	1 200 000	9.37%	1 200 000	9.37%	1 200 000	9.37%
Aviva Open-End Pension Fund Aviva BZ WBK	1 183 146	9.23%	1 183 146	9.23%	1 183 146	9.23%
Dariusz Grzeszczak	773 900	6.04%	773 900	6.04%	773 900	6.04%
Adler Properties Sp. z o. o. controlled by Józef Zubelewicz	412 087	3.22%	412 087	3.22%	412 087	3.22%
PKO BP OFE	715 279	5.58%	715 279	5.58%	715 279	5.58%
Józef Adam Zubelewicz	259 500	2.03%	259 500	2.03%	259 500	2.03%
Free Float	1 978 822	15.45%	1 978 822	15.45%	1 978 822	15.45%
Total:	**12 811 859**	**100.00%**	**12 811 859**	**100.00%**	**12 811 859**	**100.00%**

ERBUD SA shareholding structure as of 31December 2019



In the period from 1 January 2019 to 6 April 2020 there were no changes in the shareholding structure of ERBUD SA.

As of the Report Date, the Company did not have information about contracts, which could result in future changes in the percentage structure of shares held by the existing shareholders.

Share of managing and supervising persons in the Issuer's share capital	Relationship / * relationship since 1 Jan. 2020	As of 7 Apr. 2020		As of 31 Dec. 2019	
		Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM
DGI Closed-End Investment Fund of Non-public Assets controlled by Dariusz Grzeszczak	Management Board Member / * President of the Management Board	2 136 260	16.67%	2 136 260	16.67%
Adler Properties Sp. z o. o. controlled by Józef Adam Zubelewicz	a Management Board Member / * no relationship	412 087	3.22%	412 087	3.22%
Dariusz Grzeszczak	Management Board Member / * President of the Management Board	773 900	6.04%	773 900	6.04%
Józef Adam Zubelewicz	a Management Board Member / * no relationship	259 500	2.03%	259 500	2.03%
Albert Dürr	A member of Supervisory Board	28 000	0.22%	28 000	0.22%
Agnieszka Głowacka	Management Board Member / * Vice-President of the Management Board	4 077	0.03%	4 077	0.03%
Jacek Leczkowski	*Vice-President of the Management Board from 2 Jan. 2020	5 356	0.04%	5 356	0.04%

Mr Jacek Leczkowski holds 10% shareholding in PBDI SA (a subsidiary of the issuer).

8.4. Management Stock Options Schemes

8.4.1. Management Stock Options Scheme in 2013-2015

By virtue of Resolution No. 22/2012, the Ordinary General Meeting of Shareholders approved the Company's 2013-2015
Management Stock Options Scheme under which eligible persons were entitled to acquire the Company's shares within the authorized capital. Shares were offered to eligible persons in 2013-2015 in the amount not more than 50,000 shares for each year.

The Scheme referred to financial years 2012-2014. In order to be covered by the Option Scheme, a person must have been employed for at least 24 months, and in the case of persons employed in subsidiaries, the company must have been a member of the ERBUD Group for at least 2 years. In addition, the person who would be entitled could not be in the period of termination of employment. Moreover, there was an economic condition that the Capital Group earned a consolidated net profit of at least PLN 10 million in the financial year for which the shares were offered.

The implementation of the Scheme was in the custody of the Management Board and the Supervisory Board.

Scheme edition	Share series	Year of issue	Number of shares offered	Number of shares acquired	% of shares acquired	Issue value of shares acquired
Scheme 1 tranche 1	E	2010	31 686	31 686	100.00	348 546
Scheme 1 tranche 2	F	2011	43 086	41 458	96.22	456 038
Scheme 1 tranche 3	G	2012	43 541	33 787	77.60	371 657
Scheme 2 tranche 1	H	2013	40 195	36 590	91.03	402,490
Scheme 2 tranche 2	I	2014	47 759	47 379	99.20	521 169
Scheme 2 tranche 3	J	2014	49 934	49 934	100.00	549 274
Total:			**256 201**	**240 834**	**94.00**	**2 649 174**

8.4.2. Management Stock Options Scheme in 2016-2018

The General Meeting did not agree to continue the Management Stock Options Scheme for 2016-2018. Following this the program was finished in 2016.

8.5. Articles of Association and General Meeting of Shareholders

8.5.1. Amending the Articles of Shareholders

In 2019 the content of the Company's Articles of Association was amended. On 24 May 2019 the Ordinary General Meeting of Shareholders of ERBUD S.A. by virtue of Resolution No. 17/2019 changed the wording of §11, section 3, item 5, 6 and 15 of the Company's Statute, the registration of changes in the National Court Register took place on 9 July 2019, i.e:

previous wording of § 11, par. 3, subparagraphs 5, 6 and 15 of the Company's Articles of Association:
5) to give to discontinuation of production, setting up and dissolution of plants and branch offices, acquisition of new enterprises,
6) to give consent to the Company to extend guarantees, sureties and issuance of bills of exchange, acceptance of sureties, opening of a letter of credit each time when the value exceeds the equivalent of EUR 2,000,000.00 (in words: two million),
15) to give consent to dispose of the right or to take an obligation with the value exceeding the equivalent of EUR 2,000,000.00 (in words: two million),

is replaced with new wording:
5) to give consent to setting up and dissolution of manufacturing plants and branch offices.
6) to give consent to the Company to extend guarantees, sureties and issuance of bills of exchange, acceptance of sureties, opening of a letter of credit each time when the value exceeds the equivalent of EUR 2,000,000.00 (in words: two million), except for: guarantees issued at the Company's request by financial institutions related to the regular course of business.
15) to give consent to dispose of the right or to take an obligation by the Company, within a single or higher number of legal transactions with the same entity, with the value exceeding the equivalent of EUR 5,000,000.00 (in words: five million Euros) during the financial year.

To all amendments to the Company's Articles of Association the legal provisions shall apply including in particular the provisions of the Commercial Companies' Code.

8.5.2. General Meeting of Shareholders

The General Meeting is acting under the Company's Articles of Association, the Organisational By-Laws of the General Meeting of Shareholders and the Commercial Companies' Code.

General Meetings may be convened as ordinary (annual) or extraordinary ones. Ordinary General Meetings are convened by the Company's Management Board not later than 6 months after the end of each financial year. An Ordinary General Meeting is convened by the Management Board. The Supervisory Board may convene an Ordinary General Meeting if the Company's Management Board fails to convene it within the specified timeframe. An Extraordinary General Meeting is convened by the Management Board on its own initiative or upon a written request of the Supervisory Board or at the request of a shareholder or shareholders representing at least one twentieth of the share capital.

Only persons who are shareholders of the Company sixteen days before the date of the General Meeting (Record Date) are entitled to participate in the General Meeting. Shareholders may participate in the General Meeting and exercise their voting rights in person or by proxies. The power of attorney should be made in writing or in electronic form. Granting a power of attorney in electronic form does not require a secure electronic signature.

The General Meeting is convened by an announcement published on the Company's website and in a manner specified for the providing of current information in accordance with the Regulations on public offering and conditions governing the introduction of financial instruments to organized trading and on public companies.

The above mentioned announcement is made at least 26 days before the date of the General Meeting. Current Rules of the General Meeting of ERBUD SA are posted on the Company's website www.erbud.pl. In addition, the Company's website contains information on the dividend policy and shareholding structure, as well as the archive of the general meetings of shareholders.

The Company draws up a list of persons entitled to participate in the General Meeting on the basis of information prepared and made available to the Company by the entity keeping the securities deposit (KDPW S.A.). The aforementioned list is based on certificates confirming the right to participate in the General Meeting issued by the operator keeping the securities account.

The Rules of the General Meeting regulates the course of the session, the election of the Chairman and the Returning Committee, the participation in the General Meeting of members of the Management Board and the Supervisory Board of the Company and the process of adopting resolutions.

Each shareholder is entitled to propose amendments and supplements to the draft resolutions included in the Agenda of the Meeting. Voting is done by means of a computerized system of casting and counting votes ensuring that number of votes cast corresponds to the number of shares held. A resolution on refraining from considering a matter placed on the agenda may only be taken if there are substantiated motives. Adopting such a resolution requires 75% of the votes of the General Meeting.

Minutes in the form of a notarial deed, are prepared from the course of the General Meeting, and then published on the Company's website.

According to the Articles of Association of the Company, the powers of the General Meeting include:

- reviewing and approving the Management Board's Report on the Company Activities and the financial statements for the previous financial year,
- the adoption of a resolution on profit distribution or loss coverage,
- passing a resolution on profit distribution or loss coverage,
- adoption of the Supervisory Board Rules and stipulation of principles of remuneration of the Supervisory Board members,
- an increase or decrease of the Company's share capital
- amendment to the Company's Statutes,
- the Company's merger with another commercial company,
- dissolution and liquidation of the Company,
- issuance of convertible bonds, bonds with pre-emptive right or subscription warrants,
- the disposal or lease of the enterprise, or of an organized part thereof, and the establishment of a limited property rights.
- considering the issues raised by the Supervisory Board, the Management Board or by shareholders of the Company,
- deciding on any other business that in accordance with provisions of the Commercial Companies' Code or the wording of the Articles of Association fall into the competence of the General Meeting.

Matters raised by the Management Board to the General Meeting are submitted to the Supervisory Board for an opinion. Resolutions of the General Meeting are adopted by a simple majority of votes unless the provisions of the Commercial Companies Code or the Articles of Association provide otherwise.

In 2019 one (1) Ordinary General Meeting of Shareholders of ERBUD SA was held (on 24 May 2019) and 1 Extraordinary General Meeting of Shareholders of ERBUD SA (16 January 2019).

8.6. Activities of the Supervisory Board

8.6.1. Composition

In the period from 1 January 2019 to 31 December 2019 the Supervisory Board of ERBUD SA consisted of:

- Udo Berner – Chairman,
- Gabriel Główka – Deputy Chairman,
- Albert Dürr – a Supervisory Board Member,
- Michał Otto – a Supervisory Board Member,
- Janusz Reiter – a Supervisory Board Member,

- Piotr Kaczmarek - a Supervisory Board Member.

Two committees report to the Supervisory Board of ERBUD S.A.:

1. Audit Committee, which between 1 January 2019 to 31 December 2019 operated with the following composition:

- Michał Otto - Chairman (independent Audit Committee member, has been sitting on Audit Committee since 28 April 2016)
- Gabriel Główka - an Audit Committee member (dependent Audit Committee member, has been sitting on the Audit Committee since 15 November 2006)
- Janusz Reiter - Audit Committee member (independent Audit Committee member, sitting on the Audit Committee since 18 May 2018)
- Piotr Kaczmarek - an Audit Committee member (an independent Audit Committee member, has been sitting on the Audit Committee since 3 December 2018)

In the Company's Audit Committee reporting to the Supervisory Board of ERBUD S.A. Messrs. Michał Otto, Janusz Reiter, Piotr Kaczmarek fulfil the independence criterion in the understanding of Art. 129, par. 3 of the Act on Statutory Auditors.

In addition, Mr Gabriel Główka fulfils the requirements of the Act on Statutory Auditors concerning knowledge and skills in the field of accounting or auditing of financial statements. Gabriel Główka graduated from the Warsaw School of Economics, the Faculty of Production Economics, where he majored at the Construction and Investment Economics. His knowledge in this area is also confirmed by the granted academic degree of doctor habilitatus.

This is the highest academic degree awarded in the field of economic sciences in the following disciplines: economics, science of commodities, management and finance. The granting of the degree of doctor habilitatus in the field of finance confirms his knowledge in a wide area of finance, including the field of financial revision of enterprises and assessment of their financial condition, etc. Gabriel Główka's acquired competencies are testified by his experience gained, *inter alia*, at:

(i) the Loan Department, ING Bank Śląski, (ii) ING Bank Śląski, where he was the chairman of the Loan Committee of the Warsaw Region of ING Bank Śląski. The most important objective of the Loan Committee was to assess and verify the financial standing of enterprises to incur loan liabilities and make decisions on granting them revolving and investment loans, (iii) while serving as the President of the Management Board of Śląski Bank Hipoteczny - later ING Bank Hipoteczny (ING Mortgage Bank), where he managed the finances of this business entity - in the position of Chief Financial Officer (CFO), (iv) while in office in the National Qualification Commission for the Property Appraisal.

The conditions of the Act on Statutory Auditors concerning the knowledge and skills in the industry, in which the Issuer operates, are fulfilled by Mr Gabriel Główka, who graduated from the Warsaw School of Economics, Production Economics Faculty, majored at construction and investment economics. He has been a research worker and lecturer at the Warsaw School of Economics for over 30 years - currently he is the Director of the Institute of Corporate and Investment Financing. In the 2002-2004 period and again from 2009 he has been a member of the National Qualification Commission - Sub-Committee for Property Appraisal.

Consequently the Issuer meets the requirements set forth in Art. 129, paragraphs 1, 3 and 5 of the Act on Statutory Auditors.

In 2019, the Audit Committee held 5 meetings convened by the Chairman of the Audit Committee, (held at: 4 March 2019, 21 March 2019, 13 June 2019, 30 August 2019 and 21 November 2019), that could be attended by other Supervisory Board Members as well as heads of: Legal Division as well as Audit and Internal Control Department of ERBUD SA.

The meetings were held in accordance with the 2019 Audit Committee's Work Plan, which defined the date of the meetings and the major items on the agenda, including meetings with the auditor.

The Committee's responsibilities were also performed through submission recommendations, conclusions, opinions and reports to the Supervisory Board, as well as on-going exchange of opinions. If necessary, the Audit Committee updated the agenda with Any Other Business (AOB).

2. The Payroll Committee between 1 January 2019 to 31 December 2019 operated with the following composition:

- Udo Berner - Chairman (dependent Payroll Committee member, has been sitting on the Payroll Committee since 8 December 2009)
- Michał Otto - a Committee Member (an independent Payroll Committee member, has been sitting on Payroll Committee since 28 April 2016)
- Janusz Reiter - a Committee Member (an independent Payroll Committee member, has been sitting on Payroll Committee since 18 May 2018)

8.6.2. Competencies

The powers of the Supervisory Board include:

- to approve the strategic long-term plans of the Company,
- to approve annual progress and payment schedules,
- to approve the investment plans of the Company,
- to give consent to: acquisition, disposal and encumbering of real estate, perpetual usufruct, or share in real estate or perpetual usufruct,
- to give to consent to setting up and dissolution of manufacturing plants and branch offices.
- to give consent to the Company to extend guarantees, sureties and issuance of bills of exchange, acceptance of sureties, opening of a letter of credit each time when the value exceeds the equivalent of EUR 2,000,000.00 (in words: two million), except for: guarantees issued at the Company's request by financial institutions related to the regular course of business.
- to give consent to equity investments exceeding the equivalent of EUR 100.000,00 (in words: one hundred thousand) except for capital investments, Treasury bills and Treasury bonds issued in Poland or in the countries where the Company runs its business activities,
- to approve the acquisition, disposal, encumber shares or interest in other entities,
- to determine the voting procedure for the Company representatives sitting on the bodies of subsidiaries and affiliated entities with reference to the following matters: appointment and dismissal of the members of the bodies of subsidiaries and affiliated entities, dissolution or liquidation of such subsidiaries and entities, changes of the company profile, split or merger of subsidiaries or affiliated entities,
- to grant consent to take all measures not related to the Company profile and extraordinary measures with the value exceeding the equivalent of EUR 100,000.00 (in words: one hundred thousand),
- to give consent to enter into agreements with the shareholders holding at least 5% of the total number of votes at the Company's General Meeting and with the related entities in the understanding of International Accounting Standards pursuant to the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards; The above obligation does not cover typical transactions and concluded following arm's length principle during operations run by the Company with the member companies belonging to the company capital group,
- to grant consent to the investments exceeding the equivalent of the value of EUR 100,000.00 (in words: one hundred thousand), unless such investments are included in the investment plan,

approved by the Supervisory Board,

- to give consent to enter into hire, rent and licensing agreements with the effective term exceeding 48 months concluded outside regular course of business and not foreseen in the budget,
- to give consent to submit proposals and to enter into civil works contracts with the net value exceeding the equivalent of the amount of EUR 15.000.000,00 (in words: fifteen million), in case of joint proposals, the reliable measure is the net sum of the proposal rather than Company share in the proposal,
- to give consent to dispose of the right or to take an obligation by the Company, within a single or higher number of legal transactions with the same entity, with the value exceeding the equivalent of EUR 5,000,000.00 (in words: five million Euros) during the financial year, granting consent to employ an employee with an annual salary exceeding the equivalent of EUR 150,000.00 (say: one hundred fifty thousand),
- to grant consent to the appointment of the members of Company's Management Board to the management or supervisory boards of non-member companies from of the Company's capital group and in cases specified in Art. 380 § 1 of the Commercial Companies' Code,
- other matters reserved for the powers of the Supervisory Board by law, provisions of this Statute, forwarded upon the request of the Management Board or delegated by virtue of a resolution of the General Meeting.

The Audit Committee responsibilities include:

1) to monitor the financial reporting process;
2) to monitor the effectiveness of internal control systems and risk management systems as well as internal audit, including financial reporting;
3) to monitor the performance of auditing activities including in particular the conduct of an audit by the auditing firm;
4) to control and monitor the independence of the statutory auditor and the auditing firm, in particular when other auditing services are provided to the Company by the auditor;
5) to inform the Company's Supervisory Board about audit findings and to explain how the audit contributed to the reliability of financial reporting at the Company, and what was the role of the Audit Committee in the audit process;
6) to assess the independence of the auditor and to give consent to the provision of permitted non-audit services to the Company;
7) to develop a policy of auditing firm appointment to carry out the audit of Financial Statement;
8) to develop a policy by the auditing firm to carry out the audit, by entities related to this auditing firm and by a member of the auditing company's network of permitted non-audit services;
9) to determine the procedure for the auditing firm appointment by the Company;
10) to make recommendations to the Supervisory Board regarding the appointment of statutory auditors or auditing firms in adherence to the policies developed by the Audit Committee;
11) to make recommendations aimed at securing the reliability of the financial reporting process at the Company.

On 30 March 2020, the Supervisory Board submitted a statement on the appointment and operation of the Audit Committee of ERBUD SA, declaring that the legislation concerning the appointment, composition and operation of the Audit Committee, are complied with, including the fulfilment by its members of the independence criteria and requirements regarding having adequate knowledge and skills in the industry in which the Company operates and in the field of accounting or auditing of financial statements,. The Supervisory Board also declares that the Audit Committee of ERBUD S.A. performed its responsibilities provided for in the applicable regulations.

The responsibilities of the Payroll Committee include:

- to plan remuneration policy for the Management Board members,
- to adjust the remuneration of Management Board members to long-term interests of the Company.

8.7. Entity authorized to audit the financial statements

The Company has a procedure in place for the appointment of the audit firm, a policy for the appointment of the audit firm to carry out the audit and a policy for delivery by the audit firm carrying out the audit, by entities related to the audit firm and by a member of the audit firm's network of permitted non-audit services. The main principles of the policy developed for the appointment of an audit firm to carry out statutory audit and the policy for the delivery of non-audit services by the audit firm carrying out the audit are in compliance with the rules related to: (i) maintaining the statutory auditor's independence, (ii) avoiding conflicts of interest, (iii) proper preparation of the documentation in the bidding process, (iv) a non-discriminatory audit firm appointment process during the bidding process, (v) a fair assessment of the experience of the audit firm

Remuneration of the entity authorised to audit	2019	2018	2017

and the audit team and the key statutory auditor, (vi) determining the appropriate remuneration of the audit firm for the services provided, (vii) ensuring appropriate rotation of audit firms. In 2019, ERBUD S.A. appointed an audit firm to carry out the audit on the basis of the adopted procedures related thereto. On 5 March 2019, the Audit Committee issued a recommendation to the Supervisory Board regarding the appointment of an audit firm. Subsequently, on 22 March 2019, the Supervisory Board adopted a resolution to extend the agreement with the audit firm Pricewaterhousecoopers Polska spółka z ograniczoną odpowiedzialnością Audyt Sp. k. for statutory audit services in 2019-2020, i.e. to review the interim separate financial statements of ERBUD S.A. and the consolidated financial statements of the ERBUD Group and to audit the annual separate financial statements of ERBUD S.A. and the annual consolidated financial statements of the ERBUD Group.

Pricewaterhousecoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k.k. is entered on the list of entities certified to audit financial statements, kept by the National Chamber of Statutory Auditors, under registration number 144.

In addition, the Audit Committee, acting pursuant to Article 130, par. 1, subpar. 4 of the Act on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089), adopted a resolution on the assessment of the auditor's independence and consent to the delivery by the auditor of permitted non-audit services in the Company, i.e., the services of the Company's financial statement review for H1 2019.

On 30 March 2020, the Supervisory Board of ERBUD SA submitted a statement on the appointment of an audit firm to audit the annual financial statements in compliance with the regulations, including the selection and procedure for the appointment of the audit firm, along with an indication that:

(a) the audit firm and the audit team members fulfilled the conditions required to prepare an unbiased and independent audit report on the annual financial statements in accordance with applicable laws, professional standards and rules of professional ethics,

financial statements (in PLN thousand)			
Audit of the annual financial statement and consolidated financial statement	259	300	320
Review of the interim financial statements/consolidated financial statements	200	170	170
Tax counselling services	0	0	0
Other services (annual audit of financial statements of subsidiaries)	0	226	140
Other services (support for the compilation of consolidated financial statements)	0	0	312
Other services (market analysis of the industrial services sector in Germany)	0	EUR 325	0
Other services (research of foreign markets in terms of future acquisitions, due diligence of selected entities and advice on transactions)	EUR 0	EUR 27	EUR 352
TOTAL PLN	**PLN 459**	**PLN 696**	**PLN 942**
TOTAL EUR	**EUR 0**	**EUR 352**	**EUR 352**

b) the applicable rules relating to the rotation of the audit firm and of the key statutory auditor and the mandatory grace periods are complied with,

c) the Issuer has a policy in place on the appointment of an audit firm and a policy on the delivery of additional non-audit services to the Issuer by the audit firm, an entity affiliated to the audit firm or a member of its network, including services conditionally exempted from the prohibition on the audit firm providing;

On 6 April 2020, the Supervisory Board assessed the compliance of the report on the activities of ERBUD SA and the annual financial statement with the books, documents and the actual state of affairs.

The assessment of the Supervisory Board along with its rationale is a separate part of the Financial Statements

ERBUD SA keeps its trading books dutifully and economic events are correctly reflected in the accounting records. The activity report and the financial statements prepared on their basis properly reflect the formal and factual status of ERBUD SA.
Extra services in the form of a review of the interim separate and consolidated financial statements were performed with the consent of the Supervisory Board. The remuneration paid in 2019 concerned services delivered under the 2019 Agreement.

8.8. Management Board Activities

8.8.1. Composition

The Management Board Members are appointed and dismissed by the Company's Supervisory Board. The Management Board Members have not been granted special rights, in particular the right to decide on the issue or redemption of shares.

In the period from 01 January to 31 December 2019 the Management Board of ERBUD S.A. was represented by:

- Dariusz Grzeszczak - a Management Board Member
- Józef Zubelewicz - a Management Board Member
- Agnieszka Głowacka - a Management Board Member

On 2 December 2019, as a result of the resignation submitted by Mr Józef Zubelewicz from the position of a Management Board Member of ERBUD S.A. with effect from 31 December 2019, the Supervisory Board appointed Mr Jacek Leczkowski to the Management Board of ERBUD S.A. for a joint three-year term of office.

At the same time, on 2 December 2019, the Supervisory Board made changes in the functions of individual Management Board Member, effective from:

1 Jan. 2020

- Dariusz Grzeszczak – President of the Management Board,
- Agnieszka Głowacka – Vice-President of the Management Board

From 2 Jan. 2020 onwards:

- Jacek Leczkowski - Vice-President of the Management Board

Given the above as of Financial Statement Date, the Management Board of the Parent Company - ERBUD S.A. operates in the following composition:

- Dariusz Grzeszczak – President of the Management Board,
- Agnieszka Głowacka – Vice-President of the Management Board
- Jacek Leczkowski – Vice-President of the Management Board

8.8.2. Competencies

A Management Board member	Responsibility
Dariusz Grzeszczak	With regard to ERBUD S.A.: • Development of ERBUD Group strategy projects • Co-operation with the Supervisory Board of ERBUD S.A. • Investor relations (active participation in publication of the financial results of the ERBUD Group, contact with the media, relations with Stock Exchange Investors); • Oversight over the operations of the Marketing Department, PR/IR. d. • Supervision over the Corporate Governance Advisor Section • Supervision over the activities of the Management Board and Corporate Governance • Development and supervision over the operations of HR Department. With regard to the supervision over subsidiaries: • Supervision over foreign activities (GWI Bauunternehmung GmbH, ERBUD International sp. z o. o., IVT) • Supervision over ERBUD Industry Sp. z o.o. and its subsidiaries. • Industry development of ERBUD Industry Group at home and in foreign countries. (activities including: chemistry, petrochemistry, paper industry and power sector).
Józef Adam Zubelewicz	With regard to ERBUD S.A.: • Supervision over the operations of the Production Division in Poland - building construction (relations with industry investors, support in sourcing building contracts). • Supervision over the activities of the Audit and Internal Control • Supervision over the operations of the OH&S Division. • Supervision over the operations of the Management Systems Division. • Supervision over the Legal Division • Supervision over the Purchasing and Central Procurement Division With regard to the supervision over subsidiaries: • Supervision over PBDI S.A., • Supervision over ERBUD Operations Sp. z o. o. / former ERBUD Rzeszów Sp. z o.o. • Supervision over Hebud Sp. z o. o.
Agnieszka Głowacka	With regard to ERBUD S.A.: • Supervision over the activities of the Finance Division, including the

	Controlling Office. Cooperation with financial institutions, banks, insurance companies, brokers. • Coordination of information policy on the MAR MAD Directive. • Supervision over financial and non-financial reporting. • Acquisition of financing sources. • Receiving of anonymous reports on the infringements of the law, procedures and ethical standards at ERBUD S.A. With regard to the supervision over subsidiaries: • Supervision over the implementation of the financial policy of the ERBUD Group • Supervision over the activities of ERBUD Shared Services Sp. z o. o. / former ERBUD CUW sp. z o. o

Management Powers beyond 1 January 2020

A Management Board member	Responsibility
Dariusz Grzeszczak – President of the Management Board	**With regard to ERBUD Group** a) Development of ERBUD Group strategy. b) Development and supervision over the activities of HR Department. c) Supervision over the activities of the Marketing Department, PR/IR. d) Investor relations (active participation in publication of the financial results of the ERBUD Group, contact with the media, relations with Stock Exchange Investors). e) Supervision over the activities of the Division of Advisors to the Management Board on Strategy and Development. f) Supervision over the activities of the Management Board and Corporate Governance. g) Supervision over foreign activities (GWI Bauunternehmung GmbH, ERBUD International sp. z o. o. , ERBUD S.A., IVT Weiner + Reimann GmbH). h) Supervision over ERBUD Industry Sp. z o.o. and its subsidiaries. i) Development of ERBUD Industry Group in Poland and in foreign countries
Agnieszka Głowacka – Vice-President of the Management Board	**With regard to Erbud S.A.:** a) Receiving of anonymous reports on the infringements of the law, procedures and ethical standards at ERBUD S.A. **With regard to ERBUD Group** a) Supervision over the activities of the Finance Division. b) Supervision over the activities of the Audit and Internal Control. c) Cooperation with financial institutions, banks, insurance companies, brokers. d) Coordination of information policy on the MAR MAD Directive. e) Supervision over financial and non-financial reporting. f) Acquisition of financing sources.

	g) Supervision over the implementation of the financial policy of the ERBUD Group. h) Supervision over the activities of ERBUD Shared Services Sp. z o. o.
Jacek Leczkowski – Vice-President of the Management Board	**With regard to Erbud S.A.:** a) Supervision over the operations of the Production Division in Poland - building construction (relations with industry investors, support in sourcing building contracts). b) Supervision over the activities of the Management Systems Division. c) Supervision over the operations of the Legal Division. d) Supervision over the Purchasing and Central Procurement Division e) Supervision over the activities of Building Information Modelling (BIM) Department **With regard to ERBUD Group** a) Supervision over the activities of the OH&S Division. b) Supervision over PBDI S.A. c) Supervision over ERBUD Operations Sp. z o.o. d) Supervision over JV WMER Matoc Sp. z o. o. e) Supervision over JV PABC Sp. z o. o. f) Supervision over HEBUD Sp. z o. o.

8.8.3. Management Board

In 2019, the total amount of remuneration paid by ERBUD S.A. to the members of the Management Board amounted to PLN 7 124 thousand.

Remuneration* of the Management Board members ('000 PLN)	2019	2018
Dariusz Grzeszczak	3 085	2 152
Józef Adam Zubelewicz	3 319	2 152
Agnieszka Głowacka	720	795
Total:	**7 124**	**5 099**

*Total value of remuneration paid (including conditional or deferred benefits) and benefits granted by the Issuer in kind for any services rendered to the Issuer in 2019.

Name and surname	Remuneration paid by the Issuer in 2019	Remuneration paid by the Issuer's subsidiaries in 2019	Total
Dariusz Grzeszczak	2 724.00	361.00	3 085.00
Józef Zubelewicz	1,408.00	1,911.00	3 319.00

Agnieszka Głowacka	558.00	162.00	720.00
TOTAL	**4 690.00**	**2 434.00**	**7 124.00**

Members of the Issuer's Management Board are excluded from the Management Stock Options Scheme. They also do not receive remuneration for having seat on the management boards and supervisory boards of the subsidiaries.

In case of the Management Board Members – Mr Dariusz Grzeszczak and Mr Józef Adam Zubelewicz – upon termination of the agreement employment contract by the Company, with observance of a notice period where the reason justifying the termination of the agreement is the dismissal of the Management Board Member from his function and which termination will be effected before the end of the term of the Company's Management Board, the Company will be obliged to pay compensation in the amount equal to the product of the sum of EUR 14,000 and the number of months remaining until the end of the term of office.

In addition, the aforementioned Members of the Management Board of ERBUD S. A. are subject to a non-competition clause during the term of their employment contracts as well as for a period of one year from the date of termination of the employment contracts. The Company undertakes to pay to the non-competition officer each month after termination of the contract, for the period corresponding to the non-competition clause, an amount of compensation equal to EUR 14,000. The compensation will be paid in equal monthly instalments.

Upon the request of the interested person, the Company may waive or shorten the non-compliance period and then waive the payment of compensation.

The Issuer pays the costs of the pension insurance of the Management Board members – Messrs. Dariusz Grzeszczak and Józef Zubelewicz. In 2019, the amount of contributions was PLN 22.5 thousand.

The Company, upon its own initiative or upon the request of a the Management Board member, may release him from the competition ban after the date of termination of the contract or shorten the period of such ban. In the case of exemption from the competition ban, the Company is released from the obligation to pay compensation for damages, referred to below. In the event of shortening the competition ban, the remuneration is paid in proportion to the period of the non-competition clause.

During the period when a member of the Management Board will refrain from competitive activity after termination of the contract, the Company undertakes to pay the Employee each month after termination of the contract, for a period corresponding to the period of non-competition, the amount of compensation which is the equivalent of EUR 10,000, converted into PLN at the average exchange rate of the National Bank of Poland from the day preceding the payment. The remuneration will be payable in twelve equal monthly instalments, on dates specified for the payment of the basic remuneration.

If an Employee breaches his obligation to refrain from conducting competitive activities during the competition ban or to maintain confidentiality of the Company's secrets, the Employee will pay to the Company a contractual penalty equal to EUR 30,000, converted into PLN at the average exchange rate of the National Bank of Poland on the day preceding the payment.

Payment by the Employee of a contractual penalty does not release him from obligation to comply with the competition ban.

8.8.4. Supervisory Board

In 2018, the remuneration of the Supervisory Board paid by the Issuer was as follows:

Remuneration of the Supervisory Board members ('000 PLN)	2019	2018
Udo Berner	90	90
Albert Dürr	60	60
Zofia Dzik	0	25
Gabriel Główka	72	72
Janusz Lewandowski	0	25
Michal Otto	60	60
Janusz Reiter	60	60
Piotr Kaczmarek	60	37
Total	**402**	**429**

The members of the Supervisory Board of the Issuer do not receive remuneration from the Issuer's subsidiaries.

8.9. Diversity Policy

The Company appreciates and respects the diversity in the workplace resulting from gender, age, disability, health status, race, nationality, ethnic origin, religion, creed, non-confessionalism, political beliefs, union membership, psychosexual orientation, gender identity, family status, lifestyle and all other characteristics.

Diversity is considered to be an important aspect of personal capital management in the Company, providing opportunities for development based on various criteria and competencies and fostering the creation of a working environment in which each employee can fully exploit their potential, which translates into the success of the entire organisation.

In accordance with the principles of equal treatment and non-discrimination, the Company wishes to create a work environment where every employee feels respected, valued and fairly evaluated. The Company believes that diversity at the workplace is an added value, a company's potential and that when properly used, it will contribute to the development of its personal capital and the achievement of its business objectives. The Company has a diversity policy in place to promote and protect this aspect of personal capital management.

It is important to develop and improve the model of the diversity policy with regard to the Company's governing bodies, and in particular its executives. Although the Company has no direct influence on the choice of its office holders, its policy is conducive to building the widest possible pool of talents representing versatile and diverse qualities. In the Company's opinion, its governing bodies include people representing a rich and wide range of competences and qualifications, bringing together various attitudes and points of view. At this point in time, the Company has not achieved a gender balance in the composition of the organs, however, the composition of the organs is varied in terms of the other features mentioned above, i.e. educational background, age and professional experience.

The Company pursues a diversity policy, mainly through the ERBUD Group's absolute prohibition of unequal treatment in the workplace due to, among other things, gender, age, disability, scope and basis of employment and any other characteristics that may give rise to discriminatory behaviour. The Company has procedures in place to combat discriminatory behaviour, which ensure that those working for the ERBUD Group are treated equally as regards the establishment and termination of employment, conditions of employment, promotion and access to training to improve professional qualifications.

9. MANAGEMENT BOARD STATEMENTS

True and fair view of the report

According to the best knowledge of the Management Board of ERBUD S.A., the financial figures for 2019 and the comparable reporting period included in the Management Board's Report on the activities of the ERBUD S.A. Capital Group, including the Report on the Activities of ERBUD S.A., have been prepared in line with the applicable accounting principles and give a true, fair and clear view of the assets and the financial position of ERBUD S.A. and ERBUD Capital Group. It gives a true picture of the development, achievements and situation (including the description of basic threats and risks) of the parent company and the ERBUD Group.

Report on non-financial information called "Integrated Report" represents a separate part of the Annual Report.

Impartiality and independence of the entity authorized to audit financial statements

The Management Board of the parent company ERBUD S.A., based on the statement of the Supervisory Board of ERBUD S.A. of 30 March 2020, hereby declares that:

the appointment of the audit firm to carry out the audit of the annual financial statements has been made in accordance with the applicable rules, including those concerning the appointment and procedure for the audit firm appointment:

a) the audit firm and the members of the audit team have fulfilled the conditions to prepare an unbiased and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and rules of professional ethics,

b) the applicable rules relating to the rotation of the audit firm and of the key statutory auditor and the mandatory grace periods are complied with,

c) ERBUD S.A. has a policy in place on the appointment of an audit firm and a policy on the delivery of additional non-audit services to ERBUD S.A. by the audit firm, an entity affiliated to the audit firm or a member of its network, including services conditionally exempted from the delivery ban by the audit firm.

Signatures of all Management Board members:

Dariusz Grzeszczak

President of the Management Board

Agnieszka Głowacka

Vice-President of the Management Board

Jacek Leczkowski

Vice-President of the Management Board

Warsaw, 7 April 2020